THE MARKETING OF USED AUTOMOBILES

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April, 1941

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PREFACE

Used cars have for years constituted a major problem in automobile distribution. This book is the result of an intensive study of the fundamental factors bearing on the problem of marketing used cars. These basic materials are here presented in a way to afford a clear summary and a critical analysis of all phases of the used-car problem.

This study provides a broad backdrop which throws into focus the many current problems which arise in the actual marketing management of used cars. It should be of value to those who are engaged in the financing of automobile sales, and to manufacturers and distributors, as well as to those who are concerned with the broader and more general principles of marketing.

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FOREWORD

A survey of automobile trade journals, a review of convention programs of automobile dealers, and interviews with these dealers convince the observer that the used car is the major consideration of the automobile trade today.

The used car is that car in which the first and original consumer has disposed of his financial interest; it represents a quantity of unused transportation, and generally enters the market as part payment on a new car or on a used car in better condition. Over the course of forty years it has been but natural that the virgin market for automobiles has gradually become less and less, resulting in a market which today may be characterized primarily as a replacement market. Throughout the twenties, the question of how best to meet the used-car problem was the chief concern of automobile dealers alone. The thirties, with their depression years, further accentuated the dealers' used-car difficulties, and finally forced the manufacturers, who had steadfastly contended that it was none of their affair, to take some cognizance of the problem.

The historical development of the new car—its invention, its improvements, and its constantly growing importance—has been detailed adequately by many students, who have analyzed the growth of automobile manufacturers, their production problems, their financial difficulties, their distribution methods, and the subsequent effect of the automobile upon the direction of consumers' expenditures and living habits.

The purpose of this study is to determine the nature of the used-car problem and how the used car is related to the activities of the manufacturers, the automobile dealers, the automobile-sales finance companies and the new- and used-car consumers.

For assistance in obtaining the information for this study the writer is indebted to the sales executives of the used-car departments of the automobile manufacturers, to automobile dealers, to officers of sales finance companies, and to the staffs of the various trade associations representing the aforementioned interests.

Other organizations which have contributed to this study are: American Petroleum Industries Committee, New York; the National

Used Car Market Report, Inc., Chicago; The Curtis Publishing Company; The Crowell Publishing Company; The Chilton Publishing Company; and the Better Business Bureaus of Cleveland, Detroit, and Chicago. The writer is particularly indebted to Mr. Edward Payton, national consultant in sales and management for automobile dealers, and to Mr. Walter E. Blanchard, Manager, National Automobile Dealers Association, for counsel and cooperation.

For guidance, and supervision during the course of the preparation of the manuscript, the writer is indebted to Dr. Harold H. Maynard and Mr. Lester Kellogg of The Ohio State University. Acknowledgement is also due Dr. Theodore N. Beckman and Dr. N. Gilbert Riddle for their helpful criticisms of the manuscript, and to Dr. Viva Boothe, under whose supervision the manuscript was finally edited for publication.

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March, 1941

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CHAPTER I

HISTORY OF THE USED-CAR PROBLEM

Probably the first sale of a used car to be chronicled was the personal sale by Henry Ford of his gas buggy in 1896, when he sold it to Charles Aimsley of Detroit for $200, after having driven it about 1,000 miles.[1]

From 1895 to 1905, automobile purchasers were generally sportsmen and men of wealth. Conservative financial interests regarded the automobile as a fad similar to the bicycle fad of the nineties. During these years, as improvements in automobiles took place, increasing the speed and comfort of the automobile, those who owned cars of an earlier year were desirous of securing later and better vehicles. This desire introduced the first stage of the used-car problem.

The automobile business had appealed to enterprising individuals, and some of these had established attractive retail salesrooms in the heart of the shopping areas of their cities.[2] Under such conditions, the thought of selling a used motor car or even displaying it was below their dignity, and most certainly out of line with the prevailing concept of a new-car dealer in these early years. The result was that the owner of the used car was forced to use his own initiative in the disposal of it. This was not easily accomplished, for the automobile was still a rich man's pleasure, and men of sufficient wealth to purchase cars seldom bought used ones. In this connection, it must be remembered that used cars generally sold for $1,000 or more and were very expensive to operate—a fact which naturally limited their market.

The sale of a privately-owned used car frequently was not possible in local areas, which necessitated advertising in periodicals in order to reach prospective buyers in other parts of the country. An early example of the character of this advertising is found in the leading automobile periodical of that day, *The Automobile;* the issue of May 30, 1903, carried several advertisements which sought to dispose of used cars, privately owned, at substantial discounts.[3] In the same issue there is evidence that certain enterprising persons saw business opportunities

[1] Carl B. Glasscock, *The Gasoline Age* (Indianapolis and New York, 1937), p. 22.

[2] For example, four of the leading dealers in Cleveland in 1903 had their showrooms at Fourth and Euclid—the most valuable shopping area.

[3] *The Automobile,* VIII (1903), May 30, 32.

in purchasing these used cars from individuals and reselling them. The following advertisement by a Chicago firm shows the character of these operations:

> Genuine Bargains in Used Automobiles. We have the largest repository and store-room in the United States. Have forty machines on hand at all times; all descriptions, styles, very lowest prices and each and every one of our machines is in first-class running condition; all worn parts are replaced by new ones . . .[4].

During the next few years these advertisements increased in number and in size.

Dealers Begin to Assume Responsibility for Used Cars

From 1905 to 1907 significant changes took place. In order to maintain the patronage of their previous customers, dealers agreed, for the first time, to accept the owners' used cars on consignment—to resell them and apply the proceeds to the new-car purchases. Then, as competition became more aggressive, the dealers accepted, as part payment, used cars of the make they represented, and assumed full responsibility for resale.

This evolution was described excellently in an editorial in *The Automobile* in 1907 as follows:

> Is There A Place for the Second-Hand Car?
>
> In the early days of the great wave of popularity of the bicycle that swept over the land, models changed so quickly and so radically that the dealer looked askance at the purchaser who requested that his former mount be taken in trade. History repeated itself in the case of the automobile, and for the first three or four years the dealer confined himself to new cars, and most of the dealers would have preferred to see things remain thus. In fact, many of them set their faces resolutely against inaugurating the practice but all to no purpose. Not that all have been compelled to adopt it, but circumstances proved too strong for many, while others have done so as a matter of policy. The time was not long in coming when the purchaser who invested in a new car every season held his order until he could dispose of his used car. This buyer represented a relatively large class, and it paid so well to cater to him that the dealers found it profitable to bid for him, and thus his car was taken off his hands, and the practice imperceptibly took hold.
>
> Except for the fact that it necessitated larger quarters for the storage of such cars and the maintenance of a larger repair shop force, there appears to be no reason why there should have been any hesitation about adopting the practice, except on the part of the manufacturer, who considered it wholly out of his line. But how about the common garden

[4] *Ibid.*

variety of second-hand car and second-hand dealer? A thousand and one reasons bring as many used cars into his hands; they are in all conditions and of all sorts, but in many cases much of the depreciation is fictitious. It is not actual mechanical depreciation, as measured by the normal life of such a piece of machinery with reasonable care, and it probably is safe to say that a great many, if not a majority of the cars that find their way into the mart of cast-offs, have a useful life of several years before them—again with reasonable care, of course, for abuse shortens the mechanical as well as the human life. Is there a place for such cars? The thousands of them that change hands every year would appear to give an emphatic affirmative to the question.[5]

From the beginning of automobile production in the late nineties until 1907, not only were refinements and improvements added but the prices of automobiles constantly increased, so that the average selling price in 1907 for new cars was $2,137.56.[6]

From 1907 to 1914, the average price of new automobiles declined. It was the belief of Henry Ford that the future of the automobile industry rested in the ability of manufacturers to produce a car that could be purchased by others than the wealthy. Mr. Ford's determined efforts to reduce automobile prices to enable lower-income groups to purchase cars, and so widen the market, combined with improved manufacturing facilities and wider acceptance of the automobile, were all influential in bringing the price of new automobiles down to an average new-car price of $1,245.99 in 1911.[7]

It is readily understandable that the marketing of used cars was much more easily accomplished when new-car prices were constantly increasing than when new-car prices were declining. For, not only did the values of dealers' inventories in used cars decline, but customers of former years were difficult to satisfy because of the depreciation they had to accept when they traded in their cars on new ones.

The lower market price for new cars involved not only greater new-car sales for these years but naturally carried in its wake a constantly increasing problem of finding a used-car market and a profitable means of liquidating this inventory. An editorial in *The Automobile* in 1910 carried the following message and suggested solution for the problem:

With an increase of 130 per cent in the production of cars during 1909 over 1908, taking the licensed situation alone, it is necessary to seriously consider one or two of the phases among which the question of the future disposition of the second-hand (used) automobiles is bound to float to the top. It has long been the practice of the selling representatives for the various makes to take in trade used cars of their own make and allow

[5] *Ibid.*, XVI (1907), May 9, 798.
[6] *Ibid.*, XXVI (1912), January 4, 5.
[7] *Ibid.*

something for them on account of the new purchase. That they will continue to do something of this kind is very likely, and it is even possible to foresee that it may be advantageous to any maker of automobiles to father the used cars of his brand rather than to allow them to become as "flotsam and jetsam," kicking about under the heels of the buying public, offering false ear marks which will reflect seriously upon the quality of all automobiles of the same make.

One way which has been suggested by a very fair-minded builder of automobiles is to organize a series of repair shops and more or less supervise their operation, placing the used automobiles in hand for repair and permitting the repair shops to realize a profit consistent with the troublesome work.[8]

Moreover, dealers who at first tried to exclude used cars from their businesses, much as they had sought to eliminate repair and lubrication from their shops in the early days because these detracted from the appearance of their places of business, were forced to move their showrooms from the main shopping areas to provide adequate service facilities and display rooms for the used cars.

One authority gives 1911 as the year marking the period in which used cars began to receive special consideration from new-car dealers. In that year, the Glidden Buick Corporation established a separate outlet in New York City to handle used cars traded in on new cars at its metropolitan branch, the decision being that in the New York area it was advisable to separate the merchandising of new and used cars.[9]

The reduction in prices of the American automobiles during the period 1907-1914 had its effect upon the automobile industry in England. Prior to 1907, more cars were imported into the United States than were exported. After 1907, the trend towards smaller and lower-priced cars in the United States materially aided American automobile manufacturers in increasing their exports, for the automobile manufacturers of England and the Continent seemed wedded to the idea of large and expensive automobiles. A British opinion published in an American automobile periodical in 1912 described the effect of lower new-car prices upon the used-car market in England:

> The British market only began to feel the importation of the American cheap car about the time of the annual Olympia Show, November, 1911, when there was an extraordinary scramble of dealers desirous of taking up agencies for the cheap American car. It was then felt that the British public was at last beginning to feel confidence in low-priced American goods, as previously there had been a good deal of scepticism among the general public with regard to American made articles, principally caused by the impression left of American bicycles and boots.

[8] *Ibid.*, XX (1910), January 27, 197.

[9] Arthur Pound, *The Turning Wheel* (Garden City, N. Y., 1934), p. 371.

> Engineers, of course, have long been aware of the excellence of the American machine tools, but the automobile at $1,000 or less was an entirely new proposition.
>
> . . . The effect, however, on the British market is that the manufacturers of the $2,000 type of car are being hampered in their sales by reason of the decreasing demand for used cars. This is how the situation has arisen. Many owners of automobiles are in the habit of arranging with dealers to take over their used cars in part payment for new ones. The dealers now find that the market for used cars is rapidly falling off, buyers of cars at the old figure of a $2,000 used car have now the alternative of purchasing a completely equipped new American car at the same figure.
>
> There is therefore considerable reluctance on the part of the dealers to take these cars into stock generally resulting in the loss of sale of a new car every time. The Dog-in-the-Garage type of manufacturer fails to see this, but the effect is growing rapidly to his and other people's detriment . . .[10].

Slowly but surely the automobile dealers were awakening to the fact that the marketing of used cars was a component part of the automobile retailing field, and that steps must be taken to cope effectively and efficiently with the problem.

In 1914, just prior to the World War, the Curtis Publishing Company prepared a report on the passenger-car industry, and made the following observation and summary:

> Of all the problems that vex the automobile industry, probably the most serious and most difficult of solution is that of the used car. The second-hand car problem is likely to become more acute as the number of cars in use increases.[11]

Establishing Used-Car Market Values and Automobile Financing

After automobile dealers assumed the responsibility for the sale of their customers' old cars, the vexatious problem of how much to allow for different makes and models of used cars presented itself. Since trade-ins in these earlier days represented several hundred makes of cars and numerous models, dealers were confronted with the problem of appraisal. Each dealer was forced to appraise and buy on the strength of his knowledge of the market. The natural results were wide variations, frequent heavy losses to dealers due to lack of market information, and dissatisfaction among consumers because of these variations in allowances.

The first publicized attempt of dealers in an area to unite in the solution of this problem and develop standards was that made by the

[10] R. W. A. Brewer, "England and Low-Priced American Cars," *The Automobile*, XXVII (1912), October 31, 905.

[11] *The Passenger Car Industry*, Curtis Publishing Company (Philadelphia, Pennsylvania, 1932), p. 75.

Chicago automobile dealers in 1914, who, through their local trade association, founded what is now known as the National Used Car Market Report, Incorporated.[12] This organization sought through current reports of sales to offer dealers a market report and a market guide for used-car allowances on only the better-known makes, which constituted 131 gasoline and steam cars, and 14 electric makes. By June, 1915, this list had been expanded to include 154 gasoline and steam models and 14 electric cars.[13] Other cities, notably Boston, almost immediately attempted the same thing. In a later chapter, on used-car appraisals, a full discussion shows the development of the *National Used Car Market Report,* commonly known as the *Blue Book,* and other agencies created to assist dealers in sound buying of used cars and the establishing of used-car selling prices.

The War and Post-War Periods—Shortly after the Curtis Publishing Company's prediction, the European war brought such a wave of prosperity to the working masses of the United States that increased incomes and business profits greatly accelerated new-car demand and also activated the movements of used-car inventories of dealers. These current incomes and profits of individuals who were without accumulated funds for cash purchases of cars were the basis for the beginning of instalment selling of both new and used cars; it was in 1914 that automobile retail-sales financing had its origin in New York City.[14]

As automobile sales rapidly increased, dealers found that their working capital often was absorbed by used-car inventories and was not sufficient to carry adequate new-car stocks. Hence, sales finance companies added to their services that of financing the wholesale purchases of new cars by dealers.

The entrance of the United States into the war in 1917 resulted in restriction by the government of new-car production, on the ground that automobiles belonged to a class of luxuries whose production could be suspended. This action immediately put a premium on all used cars, and many dealers during this period attributed their continuance in business to their used-car activities.

In 1918, Chicago dealers, who had found that an annual automobile show stimulated new-car sales, inaugurated a used-car show. Such a show, of course, demanded that cars displayed be in a state of good repair and of attractive appearance. Dealers in other cities copied or adapted the idea to their own merchandising methods.[15]

[12] *The Automobile,* XXXI (1914), September 3, 66.
[13] *Ibid.,* XXXII (1915), June 17, 1096.
[14] *Ibid.,* XXX (1914), April 30, 939.
[15] For a full discussion, *see* Chapter X, "The Sales Promotion of Used Automobiles."

Acceptance of Used Cars in Trade on Used Cars and Effect of Low Prices of New Cars

As late as 1920, the usual new-car dealer scorned the idea of accepting a used car as partial payment on a *used-car* transaction. By 1922, however, the tremendous production of the post-war period had caught up with the demand in the market. While the Curtis study of 1914 spoke of a large virgin market, such a market, by this time, had been exploited to a considerable extent by manufacturers, and the new-car demand arose primarily from demand for replacements. Moreover, after 1923 all of the increased production of new cars was sold abroad. Mr. D. M. Phelps, writing on foreign markets and the growth of the automobile industry, said: "The entire increase in production of the American automobile industry since 1923 must be ascribed to export business. The takings of the domestic market have not increased since that time but the volume of automotive products taken by the foreign market has increased rapidly from an absolute standpoint, from a standpoint relative to the total production of the industry, and as a part of our total manufactured goods export."[16]

Dealers of high-priced cars, whose recent-model used cars were higher in price than the low-priced new cars, were the first to feel the necessity of accepting trade-ins on the sale of used cars. In order to move their inventories of used cars, they were forced to accept used cars of lower valuation in trade, and gradually the entire automobile distribution organization was compelled to follow similar practices.

Moreover, new-car prices were declining at this time, creating further difficulties in the used-car market, for the reduced prices permitted many previous buyers of used cars to rise into the ranks of new-car buyers and to decrease the demand for the better used cars.

Since 1909, it had been Henry Ford's price policy to reach down into the lower economic groups for additional new-car buyers. By 1925, however, the leaders in the automotive industry sensed that Ford had pursued this policy to the point of diminishing returns, and by 1927, Ford abandoned his Model T in favor of a model which had the standard gear shift and other refinements provided by his competitors.

The year 1925 marks the point at which a definite break occurred between the price level of used cars and that of the low-priced new cars. As explained by Mr. Mark Adams, in *Price and Price Policies,*

[16] D. M. Phelps, *Effect of the Foreign Market on the Growth and Stability of the American Automobile Industry* (Michigan Business Studies, No. 5, III [October, 1931], The University of Michigan, Ann Arbor), p. 553.

The income groups into which a lower price could further extend the market had already discovered and acquired the second-hand automobile. Used car dealers had made prices which the manufacturers of new cars could not meet and this had established a price floor for new car sales. So manufacturers discovered that the larger market and the greater profit were to be had in an appeal to the median income group able to afford new cars.[17]

The automobile buyers who were limited to $500 or less had found that the used car was a more desirable purchase than a new car stripped to the bare essentials.

Data in Table 1 show the movement of wholesale values of new automobiles to lower price levels up to 1933, and a reversal of this

TABLE 1—PERCENTAGE DISTRIBUTION OF ANNUAL FACTORY SALES OF AUTOMOBILES, BY WHOLESALE PRICE CLASSES, UNITED STATES AND CANADA, 1926-1938

(Source: *Automobile Facts and Figures,* 1939, compiled by Automobile Manufacturers Association, Inc., New York, N. Y., p. 10)
(In Per Cent of Total Sales)

Year	$500 and Under	$501–750	$751–1000	$1001–1500	Above $1500
	%	%	%	%	%
1926.........	41.4	29.1	12.7	12.1	4.7
1927.........	33.7	31.1	14.5	15.2	5.5
1928.........	42.3	30.4	11.5	11.4	4.4
1929.........	53.9	27.5	8.1	7.3	3.2
1930.........	60.3	23.4	7.1	6.2	3.0
1931.........	65.2	20.3	8.0	3.9	2.6
1932.........	67.0	22.0	6.3	3.1	1.6
1933.........	80.9	14.6	2.0	1.3	1.3
1934.........	63.5	31.6	2.9	1.2	.8
1935.........	52.7	42.6	3.3	.9	.5
1936.........	50.6	44.2	3.7	1.1	.5
1937.........	33.6	58.8	6.4	.8	.4
1938.........	15.5	71.6	10.6	2.0	.3

trend after 1933. However, the importance of the highest priced cars (over $1,000) diminished steadily from 1926 on. The drop in the percentage of new cars wholesaling for $500 or less in 1927 was due to the inactivity of the Ford Motor Company.

From 1930 through 1934, automobile manufacturers endeavored to reduce the prices of their cars in line with the reduced prices of commodities and the smaller consumer incomes, the low point being reached in 1933. Prices in 1937 and 1938 indicated a definite trend towards higher factory wholesale prices of automobiles.

[17] Mark Adams, "The Automobile—A Luxury Becomes a Necessity," *Price and Price Policies,* Walton Hamilton and Associates (New York, N. Y., 1938), p. 42.

Manufacturers of automobiles have recognized the problem and have adjusted their price schedules so that their lowest new-car prices, in general, do not conflict with the used-car-market prices, but, even today, they hesitate to accept the used-car marketing problem as a part of their responsibility.

Extent of the Manufacturers' Interest in Used Cars

It was only natural that the manufacturers of high-priced cars, whose dealers must, by the character of their business, frequently accept used cars in trade at prices above the price of many new cars, were the first even to deign to discuss the problem with their dealers. The first published comment of an automobile manufacturer relative to this problem that went beyond the usual "It's the dealers' problem, not the manufacturers'," came from Mr. Alvin Macauley, President of Packard Motor Car Company, in 1922, when he analyzed the situation and advised dealers to buy used cars carefully, and, in such purchases, to make sufficient allowance for the cost of reconditioning and selling the cars traded in.[18]

In 1926, an investigation of the policies of 26 automobile manufacturers disclosed that "only eight of these had incorporated comprehensive used-car activities as an integral, systematized part of their factory marketing effort." Four of these 8 had a special department or official devoting full time to used-car problems, while 4 more had one man at the factory, a part of whose duties definitely involved used-car activities. Again, only 8 of 26 factories studied collected statistics regularly concerning used-car stocks and sales; the rest relied on more or less general information about this phase of the dealer's business.[19]

Three studies of the used-car problem, made by the Automobile Manufacturers Association prior to 1929, disclaimed any responsibility on the part of manufacturers, reasserting that it was solely a problem which dealers had to meet. A fourth report, made in 1929, contained some consideration of cooperative advertising and junking plans.[20]

Not until 1938, when used-car inventories reached their all-time peak, did manufacturers collectively aid the automobile dealers in liquidating their used-car stocks; their method was to sponsor a National Used-Car Week in March of that year.

[18] Alvin Macauley, "The Used Car Is Automobile Industry's Most Serious Problem," *Automotive Industries*, XLVII (1922), Dec. 14, 1189.

[19] Norman G. Shidle, "New Factory Executive—The Used Car Specialist," *Automotive Industries*, LIV (1926), April 8, 597.

[20] Federal Trade Commission, *Report on the Motor Vehicle Industry* (Washington, D. C., 1939), pp. 42-106.

The Attitude of Dealers toward Used Cars

As early as 1927, new-car dealers were admonished by the general manager of the National Automobile Dealers Association that they were no longer exclusively in the new-car business,[21] and since that time, the organization has sought to impress automobile dealers with the idea that their business is essentially one of handling used cars profitably.

Heavy used-car inventories made such burdensome financial demands on many dealers that during the late twenties, particularly, many of them were given aid by automobile-sales-finance companies in the wholesale financing of used cars. Dealers who received such assistance were expected to turn over to these financing companies the retail finance paper which their customers signed. Although the larger and more conservative sales-finance companies disapproved of the practice, competition forced them into this field, with few exceptions.

Numerous remedies have been tried by associations of dealers to stimulate used-car sales and to reduce used-car losses. Some of these measures possessed merit; others were of a superficial character and unsound. The remedies employed will be discussed in a subsequent chapter.

The NRA—From October, 1933, to May, 1935, the automobile dealers, organized by local areas under the Automobile Retail Code of the NRA, were permitted to fix used-car allowances at figures which would protect their margin of profit on all cars. While this proved to be a genuine boon to dealers—and many dealers today look back upon this period as one of the best in their history—both automobile manufacturers and consumers objected to the practice. Limitation of used-car trade-in allowances curtailed new-car buying, because consumers were accustomed to more liberal used-car allowances and refused to trade their cars.

The collapse of the NRA in 1935 outlawed combinations of dealers for purposes of price-fixing, and dealers again felt the pressure of automobile factories in their drives for sales volume, and in their competitive struggle for an estimated proportionate percentage of new-car registrations. The greatest stimulus to new-car sales comes from generous trade-in allowances; hence, dealers were urged by manufacturers to grant larger allowances under the doctrine that sales volume would compensate for the lower gross margin per new car. This is true within

[21] C. A. Vane, then General Manager, National Automobile Dealers Association, "No Longer New Car Business," N.A.D.A. *Bulletin*, Sept. 25, 1927.

limits. But the 40,000-odd dealers, many of whom were inadequately financed or were lacking in good business judgment, could hardly arrive independently at the point where they could determine just how far they should cut their gross margins in order to make the greatest profit.

The automobile dealer, in many cases, has been the victim of his own misguided record-keeping, for, unlike most other retail businesses, the sale of a new car subsequently requires that an average of two used cars be sold before the profit or loss taken on a new-car deal can be determined.

The wild and uncontrolled trading caused many dealers to resort to surreptitious means to salvage a part of their new-car profit. Examples of these are: packing of finance charges, excessive insurance rates included in finance charges, and padding of new- and used-car prices, all of which are discussed in later chapters.[22] These acts of padding could be done because many consumers looked at the trade-in allowance rather than at the balance due on their purchases. Many reputable dealers claim that they were forced to follow similar business practices in order to protect their business life.

Leading dealers have realized that these stratagems could be of a temporary nature only, and have sought through legislation to create better conditions in the retailing of automobiles. Legislatures of various states have debated, and in many states have passed, dealer-licensing laws. These laws generally have provided for a governing commission to be appointed from the ranks of dealers, their purpose being to eliminate dealers who followed either unethical or uneconomic business practices.

The National Automobile Dealers Association, in 1937, lobbied for and secured a Federal investigation of the marketing practices of automobile manufacturers.[23] This inquiry was conducted by the Federal Trade Commission in 1938, and a report submitted to Congress in the 1939 Spring Session.

An occasional market glut in cities, particularly in the more prosperous industrial ones, has reduced used-car prices in some of those areas to a point where it has been profitable to drive these cars to other markets. Dealers in states which have been subjected to such importa-

[22] *See* Chapter XII, "Financing of Retail Automobile Sales."

[23] House Joint Resolution 389, 75th Congress, 1st Session, "directing the Federal Trade Commission to investigate the policies employed by manufacturers in distributing motor vehicles, and the policies of dealers in selling motor vehicles at retail, as these policies affect the public interest."

tions have either effected or attempted to effect legislation which would prevent the entrance of these cars into their states.[24]

Other interesting marketing trends are the more frequent wholesaling of used cars by new-car dealers and the rapid increase in the number of exclusive used-car dealers.

The used car, in the forty years of automobile history, has risen from the position of an individual owner's problem to a major concern of the automobile industry. The following chapters will develop many of the problems briefly touched upon in the historical account of used cars.

[24] *See* Chapter III, "The Supply of Used Automobiles."

CHAPTER II

THE DEMAND FOR USED AUTOMOBILES

Few industries have as complete a statistical record of their operations as the automobile industry. Several factors have made this possible: the relatively recent origin of the business; cooperative efforts of automobile manufacturers through their association; the character of the product—i.e., its large unit value, and its relatively long life; and the requirement by local governments that each automobile sale be recorded and that all cars operated be registered annually.

It is recognized today that the automobile market no longer is a single one, but is composed of new- and used-car markets, each of which is separate and distinct, and vital to the automobile industry.

An analysis of the demand for used cars may be approached from the following aspects: (1) an analysis of car registrations over the past twenty years; (2) estimates of new- and used-car sales since 1919, with emphasis on the importance of the growth of used-car sales; (3) an estimated valuation of all cars registered as of October 31, 1938, in order to determine at what price cars now coming into the market will be absorbed by used-car buyers; (4) an analysis of car ownership by income classes, with an attempt to determine the classes which buy new cars and those which buy used ones.

Automobile Registrations—A Measure of Ownership of New and Used Cars

Since all used cars were at one time registered as new cars, an analysis of total annual registrations, annual new-car registrations (which could also be termed annual retail sales), and estimated mortality of automobiles each year will present a picture of the expansion and development of the used-car market over a period of years.

Statistics on total car registrations and on current new-car sales are published regularly. The number of cars which are withdrawn annually from registration, usually indicating that they have arrived at the end of their useful life, may be computed in the following manner: The new-car registration of the current year is added to the car registration of the previous year, and from that figure the car registration

of the current year is deducted. The remainder is the estimated number of cars withdrawn from registration. Table 2 shows the annual registrations since 1918, the number of new cars registered annually, and the estimated number of cars withdrawn from registration annually.

Some justifiable criticism can be advanced as to the reliability of these data, particularly with reference to the years 1930 through 1933, when many owners temporarily withdrew their cars from service and did not register them because of lack of funds. To the extent that this occurred, the estimates on annual mortality are high.

Total registrations for 1938 indicate that there were almost four times as many automobiles in operation in that year as there were in 1919. New-car registrations increased rapidly from 1919 to 1923, the 1923 new-car registrations being more than 100 per cent higher than those in 1919. During the period 1923 through 1929, new-car registra-

TABLE 2—TOTAL REGISTRATIONS, NEW-CAR REGISTRATIONS, AND ESTIMATED ANNUAL MORTALITY OF PASSENGER AUTOMOBILES IN THE UNITED STATES, 1919-1938

Year	Total Registrations (1)	New-Car Registrations (2)	Estimated Annual Mortality (3)
1918	5,621,617	—	—
1919	6,771,074	1,850,865	701,408
1920	8,225,859	2,050,238	595,453
1921	9,346,195	1,555,468	435,132
1922	10,862,650	2,417,104	900,649
1923	13,479,608	3,753,945	1,136,987
1924	15,460,649	3,303,646	1,322,605
1925	17,496,420	3,870,744	1,834,973
1926	19,237,171	3,228,401	1,487,650
1927	20,219,224	2,623,538	1,641,485
1928	21,379,125	3,139,579	1,979,678
1929	23,121,589	3,880,206	2,137,742
1930	23,059,262	2,625,979	2,688,306
1931	22,366,313	1,908,141	2,601,090
1932	20,885,814	1,096,399	2,576,898
1933	20,643,564	1,493,794	1,736,044
1934	21,532,408	1,888,557	999,713
1935	22,562,847	2,286,452	1,256,013
1936	24,178,211	3,312,090	1,696,726
1937	25,449,924	3,658,525	2,386,812
1938	25,261,649	1,839,285	2,027,560

(1) *Automobile Facts and Figures,* 21st Edition, Automobile Manufacturers Association (New York, N. Y., 1939), p. 16.

(2) *Automotive Industries,* LXXX (1939), February 25, 202. Data prior to 1926 represent U. S. Production less U. S. Exports; data from 1926-1938 secured from R. L. Polk and Company. Model year for 1935 was 10 months long. Model years from 1936-1938 extended from November 1 to October 31.

(3) New-car registrations of the current year plus car registrations of the previous year, minus car registrations of the current year.

tions leveled off. In this period, more new automobiles were registered than in any other seven-year period in automobile history. By dividing the last eighteen years into two periods, 1921-29 and 1930-38, an interesting comparison is possible. In the first period, 27,772,631 new cars were registered as compared with 20,109,222 new cars in the latter period.

In 1921, there were 9,346,195 cars registered; in 1929, 23,121,589, an increase of almost 14 million. In 1938, total car registrations reached 25,261,649, showing a net gain in this latter 9-year period of slightly more than 2 million registered cars. During the 1921-29 period, 12,876,901 cars were withdrawn from use; in the period 1930-38, 17,969,162. Stated in another manner, 46.4 per cent of the new-car registrations during the period from 1921 through 1929 was needed to replace cars, and 53.6 per cent accounted for increased car registrations. In the last 9-year period, however, 89.4 per cent of new-car registrations was needed for replacement, and 10.6 per cent represented an increase in total car registrations.

In 1923, a year in which new-car registrations were only slightly below the peak year, 1929, there were 13,479,608 cars registered. It has been estimated that for this year between 7 million and 8 million of these had been purchased as new cars, the remainder having been purchased as used cars. In 1938, 25,261,649 cars were registered, and of these it has been estimated that from 10 million to 11 million had been purchased as new cars and the rest as used ones.[1]

There are at least two factors which give support to the estimate that there are from 10 million to 11 million car owners in the United States who purchase their cars new. First, the distinct levelling off of registrations of new cars from 1923 to 1929 indicates that approximately 3 million new cars were the maximum that the market could absorb annually, on an average, even in a prosperous period; and second, the average car owner trades his car after three to four years of service. In addition, in the last six years, at least two studies have been made which indicate that there are approximately 12 million families in the United States that earn in excess of $1,500 annually; and the bulk of new-car sales must arise from this group.[2]

If new-car owners have increased only 3 million in number since

[1] Weekly Press Releases, American Petroleum Industries Committee, January 17, 1938, and January 3, 1938.

[2] *Consumer Incomes in the United States, Their Distribution in 1935-36,* National Resources Committee (Washington, D. C., 1938), p. 6. *Also,* Market Research Series, *Consumer Use of Selected Goods and Services by Income Classes,* U. S. Bureau of Foreign and Domestic Commerce (Washington, D. C., 1935).

TABLE 3—ESTIMATED TOTAL NEW AND USED CARS SOLD ANNUALLY, AND RATIO OF SALES TO TOTAL REGISTRATIONS, 1919-1938

Year	New Registrations of Model Year (1)	Ratio of Used Cars Sold to New Cars Sold (2)	Estimated Number of Used Cars Sold (Col 1 × Col. 2) (3)	Estimated New and Used Cars Sold (Col 1 + Col 3) (4)	Total Registrations (5)	Ratio of Estimated Annual Sales to Total Registrations (Col. 4 ÷ Col. 5) (6)
	Number	*Per Cent*	*Number*	*Number*	*Number*	*Per Cent*
1919	1,850,865	58.7	1,086,000	2,936,865	6,771,074	43.37
1920	2,050,238	65.0	1,333,000	3,383,238	8,225,859	41.13
1921	1,555,468	70.4	1,095,000	2,650,468	9,346,195	28.36
1922	2,417,104	68.9	1,665,000	4,082,104	10,862,650	37.58
1923	3,753,945	68.3	2,564,000	6,317,945	13,479,608	46.87
1924	3,303,646	91.2	3,013,000	6,316,646	15,460,649	40.86
1925	3,870,744	98.8	3,824,000	7,694,744	17,496,420	43.98
1926	3,228,401	89.4	2,886,000	6,114,401	19,237,171	31.78
1927	2,623,538	118.5	3,109,000	5,732,538	20,219,224	28.35
1928	3,139,579	117.0	3,673,000	6,812,579	21,379,125	31.87
1929	3,880,206	128.6	4,990,000	8,870,206	23,121,589	38.36
1930	2,625,979	164.4	4,317,000	6,942,979	23,059,262	30.11
1931	1,908,141	170.6	3,255,000	5,163,141	22,366,313	23.08
1932	1,096,399	185.9	2,038,000	3,134,399	20,885,814	15.01
1933	1,493,794	178.0	2,659,000	4,152,794	20,643,564	20.12
1934	1,888,557	160.1	3,024,000	4,912,557	21,532,408	22.81
1935	2,286,452	157.8	3,608,000	5,894,452	22,562,847	26.12
1936	3,312,090	164.1	5,435,000	8,747,090	24,178,211	36.18
1937	3,658,525	164.8	6,029,000	9,687,525	25,449,924	38.07
1938	1,839,285	201.0	3,697,000	5,536,285	25,261,649	21.92

Sources: Column (1). *See* footnote (2), Table 2.
Column (2). National Automobile Dealers' Association.
Column (5). *See* footnote (1), Table 2.

1923, the 12 million increase in the number of car registrations over 15 years ago must be attributed to the vast increase in used-car sales (Table 3).

The foregoing analysis indicates that the automobile market has not expanded horizontally but vertically in the past fifteen years. It is the used car that has made the automobile democratic, for low as recent new-car prices have been in relation to automobile history, the price of a new car is still beyond the reach of 60 per cent of the current automobile users. The used car, representing various amounts of unused transportation, has made an automobile available even to a prospective buyer who has as little or less than $25 in cash.

New- and Used-Car Sales, 1919-1938

Table 3 was constructed to show the annual new-car sales and the annual estimated used-car sales for each year from 1919 to 1938.

In 1919, new-car sales were 1,850,865, and estimated used-car sales were 1,086,000, a ratio of 59 used cars to every 100 new cars. In 1938, new-car sales were 1,839,285, and estimated used-car sales were 3,697,000, a ratio of 201 used cars to every 100 new cars.[3]

Ratio of Annual Automobile Sales to Car Registrations As a Measure of Activity in the Automobile Market

The annual new-car registrations reflect buying and selling throughout the ranks of automobile ownership. Approximately 90 per cent of all new-car buyers and 59 per cent of all used-car buyers offer a trade-in as part payment.[4] Naturally, the volume of new-car sales determines, to a large extent, the activity within the used-car market.

By comparing the estimated automobile sales of any year with the total registration figures, an estimate can be made of the activity of the market and approximately the length of time the average car owner keeps his car. (*See* Column 6, Table 3.)

Generalizations based on any one year, however, might lead to erroneous conclusions, for business sentiment, as well as annual income, has fluctuated widely over the past twenty years, and it is fair to assume that automobile sales are decidedly sensitive to both factors. In years regarded as highly prosperous and above normal business, 40 per cent of the car owners trade their cars, indicating that the practice in such

[3] This estimate seems a conservative one, for the Automobile Manufacturers Association estimated 216 used cars sold to every 100 new cars. *See* Composite Experience Table, 1938, Appendix E.

[4] *Ibid.*

years is for car owners to keep their cars two and one-half years before trading them. In the severe depression years, 1932 and 1933, activity in the car market declined precipitously, the ratio of sales to registrations having dropped to 15.0 and 20.1, respectively, in these years, indicating that in like years a car owner is prone to trade his car only every five to seven years. In 1938, the ratio of sales to registrations dropped to 21.9, reflecting unfavorable business conditions, with an inference that the consumer kept his car about five years.

The sensitiveness of the automobile industry to business conditions is readily recognized by all connected with the industry, and the trend in recent years towards heavier fixed costs in the manufacture and distribution of cars creates additional difficulties in a declining market.

Attitude of Manufacturers towards Market Demand for Cars Selling at Less Than $500

In automobile circles today, the automobile market really represents two markets—the new-car market and the used-car market.[5] Automobile manufacturers have recognized this fact, and because they find that a new car in the low-priced field suffers in price comparison with the many good used cars, they have tended to widen that gulf, as exemplified by Ford's withdrawal of his four-cylinder car in 1932, and Plymouth's withdrawal of the four-cylinder car in 1934.

There are still some individuals who believe that there is a market for a new car selling below the $500 mark, but if there is, the leaders of the industry are failing to recognize it as a profitable one. While it is true that a few manufacturers of new cars have sought a part of this market, the failure of Willys, Austin, and Crosley cars to obtain any noticeable share of it substantiates the business judgment of the larger manufacturers.

Analysis of Value of All Cars in Use

The preceding discussion has shown the growth of activity in the automobile market in terms of the number of automobiles involved without considering the transactions in terms of value. The value of annual new-car sales is easily obtainable, due to the availability of statistical material; but the value of the used-car sales is at best a guess—it can only be approximated. A new-car sale is a sale of the current

[5] In a report, *1936 Motor Car Buyers,* Third Annual Study of Consumer Reaction, the Crowell Publishing Company, showed that 75.7 per cent of new-car buyers had purchased a new car at the time of their previous purchase and 72.6 per cent of the used-car buyers had purchased used cars prior to their most recent purchase.

TABLE 4—ESTIMATED VALUE OF AUTOMOBILES IN USE IN THE UNITED STATES, OCTOBER 31, 1938

Model Year	New Registrations in Model Year (1)	Per Cent of Each Model Surviving at End of Model Year 1938 (2)	Number Surviving at End of Model Year 1938 (3)	Per Cent Surviving at End of Model Year 1938 (4)	Average New Car Price Delivered at Factory (5)	Proportion of Original Value Remaining (6)	Average Value of Car in Use (Col. 5 × Col 6) (7)	Estimated Total Value (Col. 3 × Col. 7) (8)
	Number	*Per Cent*	*Number*	*Per Cent*	*Dollars*	*Per Cent*	*Dollars*	*Million Dollars*
1917–1928	30,710,684	10.8	3,315,079	14.2	—	—	25	83
1929	3,880,206	52.2	2,025,467	8.7	843	4	34	69
1930	2,625,979	66.0	1,733,146	7.4	798	6	48	83
1931	1,908,141	77.0	1,469,269	6.3	767	9	69	101
1932	1,096,399	83.4	914,397	3.9	723	12	87	80
1933	1,493,794	88.0	1,314,539	5.6	630	16	101	133
1934	1,888,557	91.8	1,733,695	7.4	664	21	139	241
1935	2,286,452	94.8	2,167,556	9.3	658	28	184	399
1936	3,312,090	97.1	3,216,039	13.8	687	38	261	839
1937	3,658,525	99.0	3,621,940	15.5	704	52	366	1,326
1938	1,839,285	100.0	1,839,285	7.9	779	70	545	1,002
Total surviving			23,350,412	100.				4,356
Average Value of All Cars in Use..........							187	

Note: For the years 1936, 1937 and 1938, the model year was from November 1 to October 31; in 1935, the model year had 10 months only.

Sources: Columns 1, 2 and 3: Marcus Ainsworth and Adolph F. Schwartz, "Today's Cars Are Longer Lived," *Automotive Industries*, Vol. LXXX, No. 8, February 25, 1939, p. 202.

Column 5: Automobile Manufacturers Association, Inc. *Automobile Facts and Figures*, 21st ed., 1939, p. 48.

Column 6: Estimate furnished by American Petroleum Industries Committee, based on data supplied by Automobile Manufacturers Association, Inc., New York., N. Y., January 13, 1939.

model at an established price, but a used-car sale may be the sale of a car one or more years old, and because of its condition there may be wide variations in price among like models.

Table 4 shows an analysis of the value of cars in use as of October 31, 1938. Such an estimate involves the number of cars in various age classifications in use as of that date, the average price they sold for as new, and their estimated value in the market as of 1938.

The total value of the 23,350,412 cars in use on October 31, 1938, was estimated to be approximately $4,356,000,000. A comparison below of the number of cars and their total value, within selected classes of values, reveals the relative importance of the cars of low value, as far as their number is concerned, and the small portion of value such cars make of the total value of all cars in use.

Average Value Class	*Per Cent of Number of Cars in Class to Total Number*	*Per Cent of Value of Cars in Class to Total Value*
$25 or less	14.2	1.9
26–50	16.1	3.4
51–100	10.2	4.2
101–200	22.3	17.8
Over 200	37.2	72.7
Total	100.	100.

All cars valued at $100 or less represented 9.5 per cent of the total value of cars in use, but these same cars represented 40.5 per cent of the number of cars in use at that time.

The average prices for models of various years hardly reflect the wide range of actual market prices. From the following grouping of percentages from Column 4 of Table 4, it is seen that 37.2 per cent of

Age of Car	*Per Cent of Cars in Use*	*Value*
Under 3 years	37.2	Over $184
3 years - 7 years	32.5	48–184
8 years and over	30.3	Under 48

the cars in use are less than 3 years old and average in excess of $184 in value; cars which are 3 to 7 years old represent 32.5 per cent and range in average value from $48 to $184; the balance, 30.3 per cent, are 8 or more years old and fall into the classification known in the trade as the junker class, valued at $48 or less.

The average value of all cars in use was found to be $187,[6] but the

[6] The American Petroleum Industries Committee furnished an estimate of $197.32 for 1938 to the writer under date of January 13, 1939.

average modal value was $139, indicating that about 53 per cent of the cars on the market were valued at less than $140 each. It is this condition which has made possible the wide ownership of automobiles in the lower income groups.

From this analysis, also, it appears that the potential new-car buyers are those car owners owning the 37.2 per cent of the cars less than three years old and worth more than $184. The cars that they trade in will be absorbed primarily by those owning cars three to seven years old, valued from $48 to $184. The trade-ins valued at $100 or less will be absorbed by those whose incomes will not permit a larger expenditure for their cars. Even though such a classification is arbitrary and many new-car buyers drive their cars in excess of three years prior to trading them in, this picture prompts a closer examination of the relation of the incomes of consumers to the demand for used cars.

Consumer Incomes in Relation to Used-Car Demand

Demand for used automobiles is predicated upon incomes sufficiently large to take off the market the current supply at a price that will enable dealers to handle them, and at a price that will induce present owners of automobiles to trade for new or better used cars and so maintain a normal supply of used cars on the market.

Although used-car buyers arise primarily from the lower income groups, who are unable to purchase new cars, it is well known that some consumers with the financial means to purchase new cars choose secondhand ones. This is explained in several ways. Some prefer a late model used car of a higher-price classification to a new car of a lower new-car price-class. Some believe that a used car, carefully selected, offers a better value. Others assert that the limited use which they make of a car does not justify the price of a new car with its heavy first-year depreciation. Consequently, any attempt to relate used-car prices to income classes can only result in an expression of a general tendency.

In a consumer study of the use of selected goods, 228,690 consumers within various income classes in 50 different cities were interviewed; of these, 54.27 per cent stated that they owned cars.[7] Table 5 presents the summarized findings on car ownership by income classes for 50 cities and shows also the variations in amount of ownership by income classes among the 50 different cities.

[7] *Consumer Use of Selected Goods and Services by Income Classes,* U. S. Bureau of Foreign and Domestic Commerce (Washington, D. C., 1935).

Ownership Related to Income Classes

Table 5, showing the various income groups and car ownership in these income groups, is most revealing. The first three income classes comprise the major group of used-car buyers and, consequently, will be more closely analyzed. The high per cent of car ownership in these low-income brackets probably is the most striking revelation in the table. One naturally wonders how people in these lower brackets—with incomes less than what many might term bare subsistence incomes—can own and operate automobiles.

The table shows car owners by income classes in each of the 50 cities included in the study. The percentage of car ownership among families for all income classes ranged from 29.2 per cent in Jacksonville, Florida, to 71.8 per cent in Lincoln, Nebraska. As might be expected, the lowest per cent of car ownership existed in the cities in the southeastern part of the United States. Of the 9 cities in which less than 40 per cent of the families owned automobiles, 7 were located below the Ohio River and east of the Mississippi. On the other hand, 17 of the 18 cities in which 60 per cent or more of the families owned automobiles lie west of the Mississippi River. The one exception is Lansing, Michigan, which is in the center of automobile manufacturing territory, is in a relatively rich farming area, and is the capital of the state—factors which may help to explain its position.

Cleveland and Minneapolis were the two largest metropolitan cities surveyed. In these cities, the percentages of car ownership were almost

TABLE 5—AUTOMOBILE OWNERSHIP BY 228,690 FAMILIES OF VARIOUS INCOME GROUPS IN 50 CITIES IN THE UNITED STATES, 1933

(Source: "Automobile Ownership in 50 Cities by Families in Various Income Groups," *Consumer Use of Selected Goods and Services by Income Classes*, U. S. Bureau of Foreign and Domestic Commerce, Washington, D. C., 1935.)

SUMMARY

Income Group	Number of Families	Number of Families Owning Cars	Per Cent of Total Number of Families	Per Cent of All Car Owners	Per Cent Owning Cars
Below $ 500	60,603	18,491	26.5	14.9	30.5[a]
500- 999	53,285	23,702	23.3	19.1	44.5[a]
1000-1499	43,908	26,682	19.2	21.5	60.8
1500-1999	30,644	21,842	13.4	17.6	71.3
2000-2999	24,699	19,608	10.8	15.8	79.4
3000-4999	11,435	9,804	5.0	7.9	85.7
5000 and above	4,116	3,971	1.8	3.2	96.5
All Families	228,690	124,100	100.0	100.2	54.2

[a] When families are combined into one income group—below $1000—the per cent owning cars is 37.0 per cent.

TABLE 5 (*Continued*)

BY INCOME GROUPS, BY CITIES

City	Number of Families	Per Cent Owning Automobiles by Various Income Groups										Per Cent Owning 2 Cars or More
		All Classes	No Income	$1–499	$500–999	$1000–1499	$1500–1999	$2000–2999	$3000–4999	$5000–6999	$7000[b] and over	
New England												
Burlington, Vt.	705	44.1	23.8	23.0	24.8	41.0	63.8	69.2	70.5	100.0	—	2.0
Portland, Maine	3,097	48.3	20.3	19.0	24.1	62.2	50.4	65.3	75.8	81.2	91.7	1.4
Providence, R. I.	7,741	38.5	19.6	19.5	25.5	38.5	51.1	64.0	75.3	80.2	93.0	1.8
North Central and Middle Atlantic												
Cleveland, O.	42,141	57.7	38.4	35.9	46.8	63.1	75.6	83.8	90.7	94.9	95.9	4.8
Decatur, Ill.	1,444	51.9	29.9	35.4	49.2	69.4	76.5	89.2	78.8	100.0	—	0.8
Des Moines, Iowa	5,707	60.3	33.8	35.7	52.2	62.0	72.9	81.5	88.5	92.6	97.8	2.6
Erie, Penna.	5,227	47.9	24.0	28.0	42.1	59.7	70.4	81.2	88.6	93.5	—	1.9
Kenosha, Wis.	1,907	46.9	31.7	31.1	40.4	55.6	71.1	81.2	81.4	100.0	—	1.2
Lansing, Mich.	1,821	67.9	44.2	53.3	55.7	77.7	85.4	92.1	92.1	98.0	—	3.2
Paducah, Ky.	1,831	35.5	12.1	14.3	36.2	59.4	58.1	72.0	84.6	91.7	—	1.2
Peoria, Ill.	4,376	57.6	35.8	35.1	47.3	59.5	68.2	79.4	89.4	100.0	94.4	2.0
Racine, Wis.	3,851	51.2	27.9	34.1	50.1	63.5	72.6	82.6	81.9	94.1	90.9	1.7
Trenton, N. J.	3,707	30.4	15.8	15.7	20.4	35.4	46.3	54.8	67.8	93.7	60.0	0.9
Wheeling, W. Va.	2,697	35.0	24.0	17.4	26.3	38.9	49.3	63.7	74.3	75.8	—	1.7
Williamsport, Penna.	1,264	45.7	16.2	31.2	42.9	56.4	60.4	72.6	100.0	90.0	—	1.3
South East												
Ashville, N. C.	1,972	46.7	50.0	18.2	40.1	57.8	68.6	83.7	85.1	83.3	—	3.1
Atlanta, Ga.	11,412	41.2	19.5	11.1	25.0	52.3	64.7	78.0	75.8	91.7	93.0	3.7
Baton Rouge, La.	931	41.0	13.9	12.6	32.2	54.6	65.1	71.7	86.8	88.0	—	2.5
Birmingham, Ala.	9,119	38.6	22.9	14.4	35.5	55.6	65.1	74.1	87.2	87.8	92.3	1.7
Charleston, S. C.	2,612	29.3	4.5	4.9	24.4	46.2	63.0	75.3	84.6	75.9	94.1	2.4
Columbia, S. C.	1,697	39.9	27.3	8.2	31.3	56.7	77.4	85.8	89.1	86.4	92.3	4.0
Frederick, Md.	918	49.5	50.0	19.2	42.3	58.4	70.4	74.3	75.7	80.0	—	7.8
Greensboro, N. C.	1,527	54.4	49.7	19.2	38.9	63.3	76.7	82.1	87.7	94.7	96.1	5.2
Hagerstown, Md.	1,771	47.3	20.7	30.6	38.0	57.4	63.9	71.1	78.8	94.4	—	2.7
Jackson, Miss.	1,052	47.1	45.8	16.8	40.9	61.1	55.4	83.2	92.5	100.0	—	4.1
Jacksonville, Fla.	2,726	29.2	19.4	10.1	26.1	59.7	65.4	79.3	89.1	82.4	—	2.6

Table 5 (*Continued*)

By Income Groups, By Cities

City	Number of Families	Per Cent Owning Automobiles by Various Income Groups										Per Cent Owning 2 Cars or More
		All Classes	No Income	$1–499	$500–999	$1000–1499	$1500–1999	$2000–2999	$3000–4999	$5000–6999	$7000[b] and over	
South East (Continued)												
Richmond, Va.	5,544	39.4	25.0	9.8	19.1	37.5	50.2	64.2	76.7	89.0	92.8	2.7
St. Joseph, Mo.	2,173	53.8	27.6	31.3	43.7	57.8	65.1	75.3	84.9	94.1	100.0	1.7
Springfield, Mo.	2,326	62.0	34.1	40.3	57.1	71.9	79.6	88.2	83.3	96.2	—	2.3
Mountains and Plains												
Austin, Texas	1,697	62.9	48.9	30.1	53.8	70.7	83.4	86.9	91.7	97.2	93.3	5.6
Boise, Idaho	2,245	66.4	46.8	46.8	57.5	68.5	81.0	83.2	87.7	96.2	—	2.6
Butte, Mont.	3,458	51.1	36.3	36.9	48.7	55.2	63.4	68.0	76.9	93.1	87.5	1.4
Casper, Wyo.	1,146	68.9	32.2	47.5	60.9	77.2	79.5	86.8	92.2	99.4	—	1.1
Dallas, Texas	6,583	67.3	44.5	39.8	52.5	67.5	78.3	83.6	92.1	97.2	98.2	7.2
Fargo, N. D.	1,403	62.0	51.0	33.1	46.4	58.3	75.0	79.7	85.8	86.4	85.7	1.4
Lincoln, Nebr.	2,594	71.8	51.8	50.0	66.0	77.6	82.3	89.0	92.1	96.9	87.5	5.8
Little Rock, Ark.	3,717	53.1	18.7	22.1	47.2	68.0	74.9	82.0	91.0	88.2	97.3	4.7
Minneapolis, Minn.	14,872	57.0	36.8	34.8	43.9	58.2	69.7	76.5	85.3	89.4	94.7	1.9
Oklahoma City, Okla.	5,577	66.5	53.1	42.2	55.4	69.4	81.6	88.4	89.4	96.2	93.2	5.7
Phoenix, Ariz.	2,362	68.0	56.6	43.5	58.6	75.9	79.4	87.7	97.1	100.0	96.9	4.2
Pueblo, Colo.	1,742	56.8	27.9	43.7	50.4	69.4	80.6	80.6	92.1	100.0	—	2.5
Salt Lake City, Utah	6,528	59.7	37.1	39.1	50.1	66.5	76.5	81.7	85.1	86.2	95.6	2.7
Sioux Falls, S. D.	2,402	67.3	59.2	44.3	55.1	68.8	76.1	86.6	92.8	96.0	100.0	2.1
Topeka, Kans.	3,987	60.7	33.9	33.3	54.2	67.4	75.7	82.1	88.0	92.3	95.8	2.5
Wichita, Kans.	4,233	70.3	53.8	51.0	63.6	77.1	85.1	89.0	92.1	95.1	95.3	3.6
Wichita Falls, Texas	1,589	67.7	52.3	38.2	58.9	74.6	83.1	88.4	96.6	96.0	95.6	6.0
Pacific												
Portland, Ore.	7,601	60.0	43.0	41.3	54.1	65.8	75.0	83.4	86.0	97.8	88.9	1.6
Sacramento, Calif.	4,126	68.0	50.9	47.4	57.7	63.5	77.9	79.8	90.6	90.3	90.0	5.3
San Diego, Calif.	7,538	68.7	53.3	46.6	57.2	70.1	82.6	87.6	86.4	95.4	—	5.4
Seattle, Wash.	9,996	57.5	44.1	39.1	47.1	61.4	69.7	78.0	85.0	90.1	89.3	1.8

[b] The classification $7000 and over was set up for some of the cities; for all other cities families which earned $5000 and over were placed in one classification.

identical, for each showed car ownership in slightly more than 57 per cent of the families. Also, the survey indicated that approximately 35 per cent of the families earning less than $500 a year in both cities owned cars.

The range of car ownership among the various income groups for the 50 cities is indicated below:

Income Class		*Per Cent Owning Cars*	*City*	*Range between High and Low Per Cents*
All Classes	Low	29.2	Jacksonville, Fla.	42.6
	High	71.8	Lincoln, Nebr.	
No Income	Low	4.5	Charleston, S. C.	54.7
	High	59.2	Sioux Falls, S. D.	
$ 1–$499	Low	4.9	Charleston, S. C.	48.4
	High	53.3	Lansing, Mich.	
500– 999	Low	19.1	Richmond, Va.	46.9
	High	66.0	Lincoln, Nebr.	
1000–1499	Low	35.4	Trenton, N. J.	42.3
	High	77.7	Lansing, Mich.	
1500–1999	Low	46.3	Trenton, N. J.	39.1
	High	85.4	Lansing, Mich.	
2000–2999	Low	54.8	Trenton, N. J.	37.3
	High	92.1	Lansing, Mich.	
3000–4999 and over	Low	67.8	Trenton, N. J.	32.2
	High	100.0	Williamsport, Pa.	
5000–6999 and over	Low	75.8	Wheeling, W. Va.	24.2
	High	100.0	Seven cities	
7000 and over	Low	60.0	Trenton, N. J.	40.0
	High	100.0	Two cities	

As can be noted, the range narrows as incomes climb. But even here it is evident that car ownership is not as commonplace in the southeastern part of the United States as it is elsewhere. There are several factors which may explain the lag of car ownership in the South: (1) the heavy taxes borne by car owners in the form of registration fees and gasoline and oil excises; (2) the slower pace of living in that territory; (3) the lack of good roads.

With the exception of the southeastern states, automobile ownership is quite comparable by income classes throughout the United States.

Estimated Distribution of Car Ownership by Income Classes for the United States

The National Resources Committee in its study of consumer

that there were 39,458,300 families in the United States. If the percentages of car ownership as reflected in the 1933 study of selected incomes, shown in Table 5, are applied to the total number of families in the United States in each income group, an estimate of the number of cars owned within each of these income classifications can be made.

TABLE 6—ESTIMATED CAR OWNERSHIP BY FAMILIES IN VARIOUS INCOME CLASSES FOR THE UNITED STATES, 1935-1936

(Sources: Columns 1 and 2: National Resources Committee, *Consumer Incomes in the United States, Their Distribution in 1935–36* [Washington, D. C., 1938], p. 6. Column 3: *See* Table 5, column 5, p. 22.)

Income Group	Estimated Number of Families and Single Individuals (1)	Per Cent at Each Level (2)	Per Cent Owning Cars (3)	Estimated Number of Families and Single Individuals Owning Cars (Col. 1 × Col. 3) (4)
Below $ 500	6,710,911	17.0	30.5	2,047,000
500- 999	11,648,038	29.5	44.4	5,172,000
1000-1499	8,734,423	22.2	61.0	5,328,000
1500-1999	5,185,926	13.2	71.3	3,698,000
2000-2999	4,434,085	11.2	79.6	3,530,000
3000-4999	1,818,269	4.6	86.9	1,580,000
5000 and above ..	926,648	2.3	92.9	861,000
Total........	39,458,300	100.	—	22,216,000[a]

[a] Registrations for 1935 and 1936 were 22,562,847 and 24,178,211, respectively. These registrations serve as a check on the reasonableness of the procedure employed in the above table.

In 1935-36, there were 39,458,300 families and single individuals in the United States and, according to the above estimate, 22,216,000 families owned cars. Of the total number of families and individuals, it is estimated that 12,364,928 earned $1,500 or more per year; since it is estimated that the new-car market is composed of approximately 10,000,000 car owners, the bulk of new-car sales must come from this group. The balance of the individuals and families, 27,093,372 or 68.68 per cent, who reported incomes of less than $1,500 annually, represent the major source of the used-car demand.

Car Ownership and Income Classes Related to Car Values

Referring to Table 4, which sought to establish the values of all cars in use, it was found that 14.2 per cent of the registered cars in 1938 were valued at $25 or less, and that another group of 22.4 per cent were valued from $26 to $75, while another 26.2 per cent, valued from $76 to $200, made a total of 62.8 per cent for all cars in use that were valued at $200 or less.

The purpose of Table 7 is to relate the number and value of cars in use to the number and incomes of families owning cars in the United States.

The difference between the 22,216,000 families and single individuals owning cars and the 23,350,412 registrations may be reconciled by the million cars, approximately, in families which own two or more cars.

It is hard to believe that a family earning less than $500 a year can afford to own a car worth much more than $25, although undoubtedly some may. The estimated values of used cars presented in the table below show that 3,315,079 of the total cars registered were valued at

TABLE 7—COMPARISON OF ESTIMATED NUMBER OF CAR OWNERS BY INCOME GROUPS WITH ESTIMATED NUMBER OF CARS BY CAR-VALUATION GROUPS

(Source: Column 1: Table 6, column 4; Column 6: Table 4, column 3.)

Income Group	Number of Owners	Number of Cars in 1938 Valued at:				
		$25 or Less	$26–75	$76–200	Above $200	Total
	(1)	(2)	(3)	(4)	(5)	(6)
Below $ 500	2,047,000	3,315,079				3,315,079
500- 999	5,172,000		5,227,882			5,227,882
1000-1499	5,328,000			6,130,187		6,130,187
1500-1999	3,698,000					
2000-2999	3,530,000					
3000-4999	1,580,000				8,677,264	8,677,264
5000 and above	861,000					
Total	22,216,000					23,350,412

$25 or less, and that the number of families earning less than $500 annually and owning an automobile numbered 2,047,000. It is not unreasonable to believe that this relation is natural; their incomes would hardly warrant greater expenditure, and to make demand effective, car prices must be within their reach.

A similar relationship exists in the next two income brackets—$500 to $999, and $1,000 to $1,499—with cars grouped on the basis of $26 to $75 and $76 to $200. Car ownership in these low-income brackets has been possible inasmuch as prices have been set to be within their reach.

The class $1,500 to $1,999 contains both new- and used-car buyers; those in the lower portion of this group may purchase some of the better grades of used cars, while those in the upper part of the bracket probably turn to the new-car market.[8]

[8] *The Automobile Trade Journal* places new-car buyers in the group which earns $1,800 to $2,100 or more a year. (R. B. Prescott, "Who Buys Used Cars," October, 1939, p. 56.)

Conclusions

During the course of automobile history numerous forecasters have set a ceiling to the number of cars which could be owned in this country. Most of the forecasting errors of previous years have been predicated on ideas of static income and buying habits of people. The price range of cars from $25 and up, and the incessant urge of all families to own an automobile, frequently at the expense of food, clothing and shelter, have confounded these forecasts in the past. How much further automobile ownership can expand is open to conjecture; if this country should enjoy a long period of real prosperity, a large market still exists among those of the lower-income brackets who could be expected to buy an automobile if incomes permit a margin above subsistence, for the used car has made automobile ownership a ready possibility for many.

Another demand factor that may increase the number of registrations is the trend for families earning in excess of $3,000 to own two or more cars. This trend is noticeable in large metropolitan areas where many people in suburban districts feel the necessity for two cars. This means that they will not offer their first car in trade when they purchase a second car. This second car may be bought either new or used. The last column in Table 5 shows the percentage of families in each of the 50 cities owning more than one car. Of all families, 3.6 per cent owned two or more cars.

CHAPTER III

THE SUPPLY OF USED AUTOMOBILES

For convenience the discussion relating to the supply of used automobiles has been divided into three major sections:

1. The source and extent of the supply of used cars, and factors within the industry which affect supply, recognizing that the supply is an everchanging one, necessitating consideration of new-car production and length of car life. The automobile, although primarily a consumer's good, is a consumer's capital good of long life.
2. A qualitative analysis of the used-car supply, involving the character of the used car as it enters the market—has it been owned personally or has it been used for commercial purposes before entering the market as a used passenger car?
3. Factors which affect the free movement of used cars from one local market to another—including interstate barriers.

The Extent and Source of the Supply of Used Cars

The supply of used cars is so closely related to the demand for used cars that the extent of the supply from year to year may be measured by the number of used cars sold annually. In the preceding chapter on demand, in Table 3, an estimate of the number of used cars sold each year from 1919 through 1938 was presented. The highest number sold in any one year was 6,029,000 in 1937 compared with 3,659,000 new-car sales during the same year. Since 1930, the number of used-car sales annually has been from 60 per cent to 101 per cent greater than the number of new-car sales.

The used car can enter the market in four ways: trade-ins on new cars, trade-ins on used cars, repossessions of cars, and privately owned cars offered for sale direct to used-car buyers.

Trade-Ins on New and Used Cars

It is estimated that more than 90 per cent of the supply of used cars result from trade-ins on purchases of new and used cars. When it is recognized that for every 100 new cars sold, 90 used cars are accepted

in trade as part payment, and that the sale of these 90 involves taking in approximately 60 other used cars in partial payment[1] and that in the sale of these 60, 30 other used cars are accepted with possibly a number of trade-ins involved in the sale of these 30, it is understandable how each sale of a new car in 1938 involved, on the average, the sale of two used cars. While the ratio of 2.01 for 1938 may be high because of the carryover of used-car inventories from the prosperous new-car market in 1937, it may reasonably be expected that the ratio of used cars to new cars sold by dealers will average between 1.5 and 2.0 in future years.[2]

There are several factors which help to create the number of trade-ins and currently increase the supply of used cars. Chief among these are: (1) the increasing life span of the automobile; (2) the mechanical improvements in the automobile; (3) the production of annual models with emphasis on style changes; (4) the merchandising skill of the automobile industry.

Length of Car Life—In Table 4, of the previous chapter, an analysis was presented of the age of all cars in use and the estimated value of these cars. Of the 23,000,000 cars, more than 3,000,000 were over 9 years old, indicating that many cars were owned and operated beyond this length of time. The supply of used cars is contingent, therefore, upon the production of new cars whose sale, as has been pointed out, involves trade-ins in 90 per cent of the cases, and upon the duration of the automobile.

The importance of the car-life factor has long been recognized in the automobile industry. However, not until 1926 was any study of car life made available in published form. In that year, Professor C. E. Griffin, of the University of Michigan, published a study of the mortality of automobiles. Michigan registration figures for 1923 and 1924 were analyzed and divided into yearly models for the years 1910 through 1922. By comparing 1924 registration data with 1923, annual mortality by age was obtained. From this, a life curve was constructed which graphically presented the life expectancy of all ages of cars within the classification studied. The mortality study gave the normal "expectation of life" of motor vehicles at 7.04 years.[3]

Nine years later, Mr. John W. Scoville, Chief Statistician of the Chrysler Corporation, prepared a study which involved an analysis of

[1] *See* Composite Experience Table, Appendix E.

[2] This trend is verified in Table 3, Chapter II, showing the ratio of used-car sales to new-car sales from 1919 through 1938.

[3] C. E. Griffin, *The Life History of Automobiles,* from Michigan Business Studies, Vol. 1, No. 1, February, 1926.

car life. With reference to registration data collected for the country as a whole, he listed several qualifying factors:

No one knows very exactly how many cars are in use at a given date. The death of a car is a nebulous affair—it is difficult to tell when the car made its last mile. Registration figures are not exact. The same car may be registered in more than one state. An old license plate may be transferred from an old car to a new car. The car may be driven with a license plate of the year before. Not all of the license plates issued by the License Bureau may be sold to car owners. For the years 1933, 1934 and 1935 the R. B. Donnelly figures give car registrations by makes and by year models. Knowing how many cars were sold each year, and also how many were in use on January 1, 1935, we can determine the percentages still in use after 1, 2, 3, etc. years.[4]

This study showed the average car life in 1935 to be 8.18 years in contrast with 7.04 years in 1924 as estimated by Professor Griffin in his study. A third analysis has been made recently by Mr. Marcus Ainsworth, Chief Statistician of *The Automobile Trade Journal,* and Mr. Adolph F. Schwartz, of the actuarial department of the Penn Mutual Life Insurance Company. Their findings were published early in 1939.[5] This might be termed the most extensive study of car life to date,[6] continuing the research inaugurated by Professor Griffin.

Car registrations for the states of New York, Ohio, and Kansas, comprising a sample of over 4,000,000 cars, for the years 1936 and 1937 —about 17 per cent of all registered cars—were studied. The number of cars by year-model eliminated between 1936 and 1937 was used as a basis for adjusting Professor Griffin's car-life curve to current conditions. Normal life expectancy for a new car was found to be 8.58 years, approximately one and one-half years longer than Professor Griffin's findings of 7.04 years in 1924, and four-tenths of a year longer than Mr. Scoville's 1935 findings of 8.18 years.

Four basic factors have had their influences on car life during this period: (1) the improved mechanical features of the automobile, embodying better engine and body construction, and—very significant —the low-pressure automobile tire; (2) greatly improved roads, which have reduced the wear and tear on automobiles; (3) a body of improved drivers; and (4) widespread service facilities for greasing and oiling of automobile parts.

Inasmuch as the average annual mileage per car has increased from

[4] John W. Scoville, *Behavior of the Automobile Industry in Depression,* an address before the Econometric Society, New York, N. Y., December, 1935, published by the Chrysler Corporation.

[5] Marcus Ainsworth and Adolph F. Schwartz, "Today's Cars Are Longer Lived," *Automotive Industries,* LXXX (1939), February 23, 201-2.

[6] The Commercial Research Division of The Curtis Publishing Company also released a study in June, 1939, based on the same data.

6,300 miles in 1919 to over 10,000 miles in 1938,[7] the full import of the increase in car life is not reflected alone in the life span of 8.58 years. Moreover, the trend for average annual mileage is still moving upward, which indicates that the factors which have greatly lengthened car life in terms of years have done so in the face of increasing use of the automobile. From these studies, it can be assumed that the cars manufactured since 1926 have an average life of at least 8 years.

The relatively long life of an automobile (as a consumer good) and its lengthening life span have their influence on the available supply of used cars. In the late twenties and early thirties, considerable pressure was put on manufacturers to establish junking funds in order to eliminate from the market many of the older and lower-priced cars, with the purpose of reducing the used-car supply and strengthening the demand and the price structure of the used-car market. The granting of junking allowances has been discontinued. The economic fallacy of this practice will be discussed in Chapter VII.

The Mechanical Improvements of the Car—Unquestionably, the constant stream of mechanical improvements has been an effective measure in stimulating owners of automobiles to trade them in for newer cars. Few manufacturers of consumers' goods have been able consistently to present annually a product that is materially improved over the previous year's product.[8] Improvements in the automobile in

[7] *The Market for Automobiles,* Editorial Research, Vol. II (Washington, D. C., 1937), 171.

[8] A partial list of the major improvements over the course of the automobile industry's history is given below:

1900–1908	Motor and body improvements
1909–1910	First closed bodies built
1911	Self-starter and electric ignition
1912	Windshields universally adopted
1915	Top and windshield made standard equipment
1916	Introduction of steel bodies
1917	Smaller wheels and steel wheels introduced
1919	Cars designed for high-pressure lubrication
1920	Windshield wipers adopted universally
1921	Hydraulic brakes introduced
1922	Balloon tires appeared
1923	First closed cars manufactured to sell for less than $1000
1925	Four-wheel hydraulic brakes and all-steel bodies used
1926	Rubber engine mountings with increased riding comfort
1927	Standard gearshift adopted
1928	Safety glass introduced as standard equipment
1929	Automobile radio
1931	Vacuum spark control used
1932	Drop center rims replaced detachables
1933	Steel tops and built-in trunks appeared
1934	Synchronized front and rear springs
1935	All-steel bodies became universal, steering post gearshift introduced
1937	Built-in windshield defrosters, lowered floors, batteries under hood
1938	Improved windshield vision, independently sprung front wheels
1939	Steering column gear-shift popularized
1940	Sealed beam headlights universally approved.

the early years of the industry might be expected, but that the industry in its 40-odd years of existence has been able to offer the consumer an improved product each year is a tribute that only the manufacturers of automobiles have earned.

The improvements in the new automobiles have been a great stimulus to owners of cars in the upper-income brackets to trade their cars frequently and pay the automobile industry generously for its contributions. The vast sums spent by manufacturers in technical research and market research have been justified by the sales in the industry.

Styling and Appearance—The ability of manufacturers to change and, in most cases, improve the appearance of the automobile each year has been one of the industry's best merchandising assets. Although real estate men have long preached that the home was man's prize possession, the constant desire of the American public to have a better and a more beautiful car has enabled manufacturers to effect with profit the costly annual changes in dies, and to incorporate new plastics and fabrics into the bodies.

Skill in Merchandising and Distribution in the Automobile Industry—The skill of automobile manufacturers in motivating the sale of new cars which supplies trade-ins must not be ignored. The annual automobile shows which introduce the coming year's models are probably the most dramatized and publicized introduction of any consumer good. It is a wonderful tribute to the automobile manufacturers and their sales departments that the interest in the annual presentation has quickened rather than lagged as year followed year.

Combined with this whetting of the consumer demand, the automobile industry has been able to accomplish sales through its distribution methods. Generally, the automobile dealer, the link between the producer and consumer, holds a franchise to sell one make or one manufacturer's line of cars, and the duration of the dealer's business life, frequently, is contingent upon his willingness to proceed as the manufacturer wishes. Until the twenties, production facilities were inadequate to keep pace with demand for new cars; after 1925, production facilities were geared to a point beyond ready market absorption.

The result has been that the automobile dealer, in recent years, has bemoaned the fact that his contract with the manufacturer is unilateral—that the manufacturer can by either direct or indirect means force him, the dealer, to do business as the manufacturer wants it conducted. The manufacturer, in the past, has set sales quotas and demanded what he considered was his percentage of the business in the territory. In

order to get this volume, although against their better judgment, many dealers, literally, have bought this volume through excessive trade-in allowances, and have borne heavy losses, even bankruptcies. This is one business in which the dealer, frequently, has been squeezed between manufacturers' and consumers' demands.

These factors have all contributed to the increase in the number of trade-ins and the available supply of used cars.

Repossessions in Cars Financed

In the depression years, and particularly in poor business years following a prosperous period, repossessions of automobiles and private liquidation of consumer ownership are most frequent. Table 8 shows

TABLE 8—ESTIMATED NUMBER AND PER CENT OF ALL AUTOMOBILES REPOSSESSED ANNUALLY, 1928-1938

(Sources: Column 1: Table 3, column 4. Columns 2 and 4: Composite Experience Table, Appendix E, Parts 1 and 4.)

Year	Estimated Number of Cars Sold (1)	Estimated Per Cent of Cars Financed (2)	Estimated Number of Cars Financed (Col. 1 × Col. 2) (3)	Estimated Per Cent[a] of Financed Cars Repossessed (4)	Estimated Number of Cars Repossessed (Col. 3 × Col 4) (5)	Cars Repossessed as Per Cent of all Cars Sold (Col 5 ÷ Col 1) (6)
1928..	6,812,579	59.4	4,046,672	4.1	165,914	2.4
1929..	8,870,206	64.0	5,676,932	4.2	238,431	2.7
1930..	6,942,979	63.8	4,429,621	5.4	239,200	3.4
1931..	5,163,141	61.3	3,165,005	8.5	269,025	5.2
1932..	3,134,399	48.6	1,523,318	10.4	158,425	5.1
1933..	4,152,794	56.8	2,358,787	5.7	134,451	3.2
1934..	4,912,557	56.6	2,780,507	5.3	147,367	3.0
1935..	5,894,452	60.8	3,583,827	7.3	261,619	4.4
1936..	8,747,090	59.4	5,195,771	5.1	264,984	3.0
1937..	9,687,525	59.0	5,715,640	9.4	537,270	5.5
1938..	5,536,285	57.0	3,155,682	15.1	476,508	8.6

a. Estimate based on experience of finance companies.

the rate of repossessions of new-and used-cars for each year from 1928 through 1938.

In 1938, repossessions reached their all-time peak; 6.3 per cent of new cars sold on time, and 19.2 per cent of all used cars sold on time (one out of every five) were repossessed, resulting in an average of 15.1 per cent of repossessions on all time-sales of motor vehicles for the year.[9]

These data need further interpretation, however, for in 1938, only 52 per cent of all new cars, and 60 per cent of all used cars were sold on instalments.[10] This indicates that 3.2 per cent of all new-car sales, and 11.5 per cent of all used-car sales in 1938 were repossessed.

[9] *See* Chapter XII, Table 33.
[10] *See* Composite Experience Table, Part 4, Appendix E.

Conclusions regarding 1938 repossessions, however, must be tempered. Car repossessions in any single sales year are the composite result of some of the current year's sales and sales of the two previous years, for few time-sales contracts reach maturity during the current sales year. A relatively accurate picture of the rate of repossessions can be obtained from data for a period of years. In the years 1928 through 1938, repossessions of total annual sales ranged from 2.4 per cent in 1928 to 8.6 per cent in 1938. The increasing percentage during the course of these years can be attributed to two factors: (1) the unsettled business conditions of the period; (2) the marked tendency on the part of automobile dealers and finance companies to lower credit requirements to stimulate the sales of cars.[11]

Sales of Cars by Consumers

The number of used cars that come into the market through the liquidation of consumer ownership cannot be approximated, for clues to its extent are not available. That these cars come into the market is readily understandable, for a car is probably the largest capital asset of an individual, except a house, and probably the consumer's most marketable chattel. If one takes a trip through "Automobile Row" in any large city, one frequently sees the sign "Cash for Your Car." This indicates that at least occasional purchases are made from consumers who feel that it is desirable to liquidate their automobile ownership. However, this is not an important source of used cars, for it can be estimated that between 90 and 95 per cent of the annual used-car supply is obtained through trade-ins, the balance entering the market by repossession and by the consumer's selling his car for cash.

The Used Car in the Market—A Qualitative Analysis

In automobile trade circles, all cars in current use are regarded as used cars. A study of the qualitative aspects of all cars in use involves a study of their age and unused mileage, and of the gradations in quality of individual used cars.

The decrease in automobile production for the 9-year period 1930-1938 from the previous 9-year period (1921-1929) accompanied by a slightly rising number of car registrations has directed the attention of some economists and statisticians to the consumer and to the automobile he drives.

[11] For additional discussion of repossessions, *see* Chapters XI and XII on the financing of automobile sales.

Age and Unused Mileage

Table 4, Chapter II, gives the age and the estimated value of all cars in use in 1938. The 1924 and 1938 studies of car life estimated the average age of cars in use to be 3.07 years,[12] and 4.54 years,[13] respectively, indicating that the average car in use in 1938 was one and one-half years older than the average car in use in 1924.

Mr. Scoville estimated that the unused mileage of cars in operation in 1929 was 1,050 billion miles, and that by 1935 this consumer inventory of unused mileage had been reduced to approximately 675 billion miles.[14] In comparing 1935 with 1929 registration figures, a decline of approximately one-half million cars is apparent, indicating clearly that the average car in use in 1935 was older and had less unused mileage available. By reducing these general findings to a specific figure for the average car in operation, it is estimated that the average car in 1929 still had 45,000 unused miles available, and that the average car in 1935 had only 30,000 unused miles available. Since the average car has between 80,000 and 90,000 miles of use, one-half of the average car mileage had been used in the average car in 1929, but more than two-thirds of the potential mileage had been spent in the 1935 average car in use.

Although automobile sales have increased since 1935 over the low sales of the depression years, the unused mileage in cars owned by consumers, in all probability, has risen but slightly, inasmuch as 1938 sales data for new cars reveal another low point. Hence, the 1935 estimate of the average car's unused mileage closely approximates the present situation.

In regard to the used-car supply, this means that the average trade-in which enters the market is older, and has been driven further. Consequently, on the average, a lower grade of used cars is entering the market at the present time.

Who Drove the Trade-In?

Up to this point, the used car has been spoken of objectively. But the used car is not a standard piece of merchandise; it is a by-product. It constitutes a product disposed of by personal users or commercial travelers who have sold it, generally, in order that they might enjoy or profitably use a new automobile. Under these

[12] C. E. Griffin, *loc. cit.*
[13] Ainsworth and Schwartz, *loc. cit.*
[14] John W. Scoville, *op. cit.*, p. 19. Mr. Scoville estimated the number of miles in a car at 77,500.

conditions every used car that enters the market is different: The care given a car by various drivers differs, the mileage of each car varies, and the gradations of driving skill have had their effects. The average life of an automobile may be 8.58 years, but the life of a particular automobile may be much longer or much shorter, depending upon the character of its use.

Under such conditions is the supply of used cars created, and in this respect the used-car market is different from the markets selling new merchandise.

New passenger cars are purchased by three classes of users. The first class is represented by individuals driving them to and from work and on pleasure trips. The typical motorist travels about 10,000 miles a year. With the length of car life at 8.58 years, the average car would travel about 85,000 miles in the course of its life.[15] Even though variations in the care accorded cars do exist, automobiles used in this average manner are regarded as the standard of used cars found for sale in the showrooms and lots of dealers.

The second group of new-car buyers use their cars for commercial purposes, such buyers being salesmen, credit men, service employees of business institutions, and professional men. It is common practice for salesmen and others using their automobiles in business, who usually drive many more miles than the average during the course of a single year, to trade in their cars annually. Since the amounts of depreciation and obsolescence are largely governed by age—not usage—the driver who covers well in excess of the average mileage of motorists finds it to his advantage to trade. This practice naturally brings into the used-car market many late model cars of high mileage. This is a fact that used-car buyers should be acquainted with, for depreciation should not only be gauged by the age of a car, but also by the amount of consumed mileage and the care given the car.

Ex-Taxicabs in the Used-Car Market—The third classification of new-car buyers embodies the taxicab companies which dispose of their used taxis in such a way that they enter the market under the guise of privately driven cars of a late model. The appearance of these cars in the used-car market is not only a danger to the used-car consumer but also to the reputable dealer. Consumers and also dealers, frequently, have purchased such cars without being aware of their previous service record.

[15] It has been estimated that the average motorist traveled 9,615 miles in 1937. American Petroleum Industries, *Press Release*, January 3, 1938.

The problem of the ex-taxicab has received considerable attention in recent years because numerous taxicab companies have found it advantageous to purchase standard passenger sedans, transform them into taxicabs, and after a year's operation return them to standard forms of sedans and market them as late-model passenger cars.

There is a possibility, however, of magnifying this problem to a point where it is out of proportion to its importance. The number of taxicabs in use in the United States has been estimated at 70,000.[16] This would mean that there is one taxicab for each 360 registered automobiles. But not all of these 70,000 taxicabs are of the character which permits their being transformed to standard sedans for the used-car market. In certain cities, however, the taxicab ratio to private car ownership is much greater. For example, Washington has one taxicab for every 158 of its population; New York, one for each 600; Baltimore, one for each 1,000; Boston, one for every 1,250. In the midwest, Chicago has one per 1,300; Cleveland, one for each 3,000; and, in the far west, Portland, Oregon, has one for each 2,000 population.[17]

The presence of the taxicab in the used-car market, therefore, would be of greater significance in the eastern cities, and it is understandable that New York and Pennsylvania have led in creating measures to protect automobile consumers and automobile dealers.

Protection against Used Taxicabs—On August 16, 1938, Mr. Paul Moss, Commissioner of Licenses of the State of New York, issued the following ruling which sought to protect the secondhand-car buyer from innocently purchasing a passenger car previously used as a taxicab:

> In connection with the purchase of a used car, it shall be the duty of every licensed dealer to make a thorough investigation as to the use the car had previously been put, and if found to have been used as a public hack or taxicab, such fact shall be duly recorded with all other facts in connection with such purchase and any future purchaser or prospective purchaser of the said car shall be so informed. The dealer shall also include as a part of his investigation and the record to be made by him of the last previous registration of the car, regardless of the state in which such previous registration occurred.[18]

In June, 1939, an act to amend the vehicle and traffic law in the state of New York to require a certificate of good condition to be

[16] Research Bureau, World Wide Advertising Corporation, "Survey of Taxicab Transportation in the Major Cities of the U. S. A. during 1939" (New York, N. Y., 1940).

[17] *Ibid.*

[18] "Cabs Being Sold Here as Second Hand Automobiles," *The Taxi Weekly*, XXVII (1938), September 19, 1.

furnished by dealers in secondhand cars was signed by Governor Lehman, and became effective September 1 of that year.

> The act compels dealers in second hand vehicles to deliver to the purchaser an instrument in writing in which shall be given the make, year of manufacture and engine number of any vehicle purchased, the address of the dealer and date of delivery. The certificate must also state that the brakes, lights and signalling devices are mechanically adjusted to meet the requirements of law and that the vehicle is in a condition to render a safe and satisfactory service upon the public highways at the time of delivery.
>
> Passage of this bill will change the entire set-up of as-as [is] taxicab sales, as all cars and cabs must be in perfect condition before delivery can be made to the purchaser.
>
> The bill is the result of many complaints that purchasers were given to understand that the vehicle they were purchasing was in better condition than it actually was.[19]

In July, 1939, the Pennsylvania Department of Revenue granted the request of the Pennsylvania Automotive Association to earmark cars used as taxicabs and other "for-hire" service. Since September 1, 1939, it has been required that a former taxicab or motor vehicle used for hire be so designated on the certificate of title and on other departmental records. Used taxicabs brought into Pennsylvania from other states are identified through an exchange of information covering serial numbers of all cars used for hire.[20]

Two other states, Wisconsin and Oregon,[21] require that registration and certificates of title of vehicles used as taxicabs or for public transportation are to contain a statement that the vehicle was used as a taxicab or for public transportation. The Wisconsin law not only requires that taxicabs and cars used for hire which enter the state for the purpose of resale have this fact clearly stamped on the certificate of title, but, in addition, requires that an informative sticker must be attached to the right-hand corner of the windshield. Other states are giving this problem consideration.[22] There is at least one instance of restitution through court action for damages sustained when a consumer innocently purchased an ex-taxicab.[23]

[19] "Amend Regulations on Used Cab Certificates," *Taxi Age,* June 12, 1939.

[20] *Philadelphia Evening Ledger,* July 1, 1939. The Pennsylvania Automotive Association suggests 15 ways a consumer can detect a taxi disguised as a passenger car.

[21] Wisconsin: Section 85.04. Oregon: Chapter 469.

[22] Connecticut, Delaware, Maryland, New Jersey, and Virginia constitute a partial list.

[23] In this case Mrs. Jennie Baker sued the Benjamin Motor Car Company in the Philadelphia Municipal Court (April term, 1938), Case No. 561, and secured a verdict for $547.60, the full amount of her claim including costs. Mrs. Baker had purchased the automobile for $525 with the understanding that it was not over eight months old and had been used by a private owner, and that it had been completely repainted and conditioned in the factory, and had been driven only 9,270 miles.

The plaintiff alleged that the car was 14 months old and had been used continuously in public taxicab service in Philadelphia. The judgment was given in default of the defendants to appear, who advised the court that they would not contest the case. *Taxi Age,* X (1939), January 23.

The better business bureaus of the large cities have fought the practice of selling ex-taxicabs as used cars without indicating their former service records, by publicizing the practice and by securing the aid of the newspapers in many instances to insist upon honest advertising of cabs for sale. The Cleveland Better Business Bureau, one of the most aggressive in the country, has obtained the support of the Cleveland newspapers to enforce a ruling that all advertisements offering taxicabs for sale as used cars in their columns must definitely state this fact in type comparable to the largest used in the advertisement.[24]

When confronted with local barriers to easy sale, many taxicab operators have endeavored to market their old taxis in distant areas. This movement is discussed in the next section, which deals with the interstate movement of used cars.

Interstate Movement of Used Cars and Factors Affecting the Free Movement of Cars from One Area to Another

Up to this point, the supply of used cars has been discussed from a national point of view. In a country as large as the United States, with varying economic conditions of both temporary and seemingly permanent nature, it is natural that, in a comparative sense, certain markets may have an oversupply and others an undersupply of used cars.

The higher standard of living in the northern states, coupled with the lower delivery charge on new cars, has permitted a greater portion of the potential car buyers of this area to buy new cars. The result has been that the supply of used cars in these northern cities has been so large that their prices have been depressed. Detroit, for many years, has been looked upon not only for a supply of new cars, but also, by many used-car dealers, as a splendid source of used cars as well. The observing motorist driving on roads leading south and west from Detroit, Cleveland, and Chicago frequently meets strings of used cars being caravaned or driven in coupled fashion south or west.

The southern automobile dealers, also, have bitterly complained of the practice by northern seaboard cities of shipping boatloads of used cars on coast-line boats and dumping them in southern seaboard cities for resale in these cities and in the neighboring areas. Automobile dealers in the states subjected to this type of competition have sought to have their state legislatures restrict the practice. Their plea is based on protection of the public interest. Granting that their prime interest is

[24] *The Cleveland Plain Dealer*, February 5, 1939.

self-protection, it must be admitted that public protection is at stake. Many dealers specializing in used cars import these cars—frequently taxicabs parading as passenger cars—into these states to sell them to used-car dealers of questionable standing, or else lease a vacant lot on a main thoroughfare to sell these cars. Subsequently, such dealers disappear, and should the consumer find that he has been defrauded, he has no recourse.

In recognition of the merit of the claim by established dealers for protection from some of these modern privateers, various legislatures have enacted legislation to control, if not to restrict, such operators. In 1935, three states enacted legislation affecting interstate shipments of used cars.

Florida passed a law requiring that all used cars brought into the state for resale be registered, and that a bond be posted with the state for the full resale value of each car. A registration fee of $1 and a bonding fee of $5 were charged. New Mexico and California enacted "caravan" legislation, which permitted a fee to be charged at their boundary lines for cars brought into or transported across the state for sale.

The Florida enactment[25] was the first of these laws to be challenged, but it was declared constitutional by the Florida Supreme Court.[26]

The act passed in New Mexico,[27] charging $7.50 per vehicle transported by its own power, and $5 if towed or drawn by another vehicle when the vehicle is being transported with the intent of resale, was held valid by the Supreme Court of the United States, May 18, 1936, which deemed it to be consistent with the commerce clause of the Constitution and the due process and equal protection clauses of the Fourteenth Amendment.[28]

The California Caravan Act,[29] which was first passed in 1935, defined "caravaning" as the "transportation 'from without the State, of any

[25] Florida Laws of 1935, H. B. N. 634.

[26] *State ex rel. Leathers* v. *Coleman,* 123 Fla. 23: 166 Southern 226.

[27] New Mexico Laws of 1935, C. 56.

[28] *Morf* v. *Bingaman,* 298, U. S. 407 (1936). "So held of its application to a distinct business of moving cars interstate, for purposes of sale, in caravans or processions, usually in units of two coupled together, each unit being operated from the foremost of the two cars composing it, by a single driver. The drivers, because of their casual employment, had little interest in the business and were likely to be careless. The coupled cars caused unusual damage to the roads by skidding. For this and other reasons the caravans increased the inconvenience and hazards of traffic and the burden and expense of state policing.

"As the tax is not on the use of the highways but on the privilege of using them, without specific limitation as to mileage, the levy of a flat fee not shown to be unreasonable in amount, rather than a fee based on mileage, is not a forbidden burden on interstate commerce."

[29] California Statutes, 1935, C 402.

motor vehicle operated on its own wheels or in tow of another vehicle for the purpose of selling or offering the same for sale . . . to any purchaser' located within or without the state; it prohibits caravaning without attaching to each vehicle a special permit for which a fee of $15 is exacted." The District Court of the United States for the Southern District of California ruled that the licensing provisions of the statute imposed an unconstitutional burden on interstate commerce, and this decision was upheld by the United States Supreme Court in March, 1937.[30] The proof of the unconstitutional burden was based on the information that 15,000 cars came into the state in 1935 for resale, resulting in an annual return for the state of $225,000 while the state had indicated that a sum of only $24,000 would be enough to police and administer the act adequately.

How important these 15,000 used cars were in the California markets is open to conjecture, but an estimate can be made which might give a clue to it. In 1935, 196,967 new cars were sold in California.[31] If the national ratio (157 per cent) of used cars sold to new cars sold in that year holds, then approximately 311,000 used cars were sold, of which 15,000 or 4.8 per cent were imported—not a very large percentage. But, in all probability, these imported cars were not distributed evenly in the various markets throughout the entire state, and their presence in a few local market areas probably interfered considerably with the price structure in these markets.

The California Caravan Act was rewritten, and the Act of 1937,[32] which defines caravaning as "the transportation of any vehicle operated on its own wheels or in tow of a motor vehicle, for the purpose of selling or offering the same for sale," exacts two license fees, each of $7.50, for a six-month permit to "caravan" a vehicle on the state highways. One of the fees is designed to reimburse the State for expenses incurred in administering police regulations pertaining to the operation of vehicles moved pursuant to such permits, and pertaining to public safety upon the highways as affected by such operation; the other is disclosed to be compensation for the privilege of using public highways. On April 17, 1939, the United States Supreme Court ruled that the charge of $7.50 for administration and policing of highways was reasonable, and that the highway charge need not be justified as a charge for wear, inasmuch as a state has the right to divide automobile traffic into various classifications and ask compensation for the privilege of using the public highways.[33]

[30] *Ingels* v. *Morf*, 300 U. S. 290 (1937).
[31] *Automotive News 1939 Almanac* (Detroit, Mich.), p. 47.
[32] California Statutes, 1937, Ch. 788.
[33] *Clark* v. *Paul Gray, Inc.*, 306 U. S. 538 (1939).

An enactment in North Carolina in 1937[34] was practically identical with the Florida law as to content and application; but the Federal District Court for the Eastern District of North Carolina ruled it to be unconstitutional,[35] on the grounds that the $10 fee bore no reasonable relation to the cost of registering the title, and, consequently, constituted a burden on interstate commerce in violation of the commerce clause of the Constitution.

Seven other states enacted legislation in 1937, and one in 1938, relative to importation of automobiles over highways: Alabama, Arizona, Georgia, North Dakota, Oregon, Utah, and Washington, in 1937; Louisiana, in 1938.[36] A comparison of the statutes of the eleven states which have laws specifically directed at importations of used cars shows that, universally, the following is required:

1. The posting of a bond equal to the sales price of each car imported. The purpose of the bond is to guarantee the title, protect against fraudulent misrepresentations and from breaches of warranty as to freedom from liens, quality, condition, use or value of the used car.
2. A registration fee, ranging from $1 to $10 per car.
3. Penalties in the form of fines and imprisonment for violation of the law.

[34] Laws of 1937, S. B. No. 93.

[35] *McLain* v. *Hoey* (1937). "The question which arises for our decision, therefore, is narrowed to this: May the state lawfully require the bond and fee prescribed by the statute with respect to the sale of used automobiles brought from without the state, when no such requirement is made with respect to the sale of other used automobiles? In other words, can interstate commerce in used automobiles be burdened in this way? It is clear, we think, that the question must be answered in the negative.

"It will be noted that the bond required is to relate not merely to the title of the vehicle and its freedom from liens but also to loss, damage and expense by reason of fraudulent misrepresentation or breach of warranty as to quality, condition, use or value; and the proofs leave no doubt that the furnishing of such a bond will be expensive and burdensome and will place out-of-state used automobiles at a great disadvantage in competition with used automobiles from within the state. The $10 fee required upon deposit of each bond is not shown to have any reasonable relation to the cost of registering the title . . . And it is clear that, like the requirement of the bond, it imposes a burden upon interstate commerce in motor vehicles . . . .

"It is argued that, as neither the posting of the bond nor the payment of the fee is required until after the used motor vehicles have come to rest and have become a part of the property subject to the jurisdiction of the state, the commerce clause is not applicable; reliance being placed upon the decision of the Supreme Court of Florida in *State ex rel. Leathers* v. *Coleman,* 123 Fla. 23: 166 Southern 226. There is no question about property which has come to rest within a state, after transportation in interstate commerce has ceased, being subject to the power of the state. But it is equally well settled that the state may not exercise such power to discriminate against property which has thus been brought in from other states, for to do so is to burden interstate commerce in violation of the commerce clause of the Constitution."

[36] Alabama, H. B. No. 45; Arizona, Ch. No. 76; Georgia, S. B. No. 29; North Dakota, S. B. No. 194; Oregon, Ch. No. 469; Utah, S. B. No. 223; Washington, S. B. No. 306; and Louisiana, S. B. No. 68 (1938).

Arizona alone requires that persons engaged in the business of bringing in more than one vehicle a day, two per month, or three per year shall be required to purchase annually a license which costs $100.

It may be expected that states other than these eleven will pass similar statutes in an attempt to protect buyers of used cars.[87]

Another factor which will make it more difficult for dealers to follow questionable practices is investigation being carried on by the Federal Government. In a recent discussion with the General Manager of the Detroit Better Business Bureau,[88] the writer learned that the United States Department of Labor, under the authority of the National Labor Relations Act, has been checking the practices of used-car dealers who move cars in interstate commerce, in regard to the hours required of their drivers and the wages paid. Dealers, frequently, have been guilty of hiring irresponsible drivers for cars to be driven to distant states, and have left such drivers stranded with little or no pay. If this practice is curbed, higher costs will be entailed, and the amount of interstate shipments reduced.

In general, the legislation and the restrictive measures seem justifiable and do not place an undue burden on interstate commerce; for example, the majority of cars moving interstate are of a class for which dealers expect to receive $300 or more. A $15 fee would represent a 5 per cent sales tax on such cars; consequently, if prices of used cars in states with such legislation were considerably higher than those in other states, it would still be profitable for dealers to import these cars and pay the tax.

The chapter on the demand for used automobiles presented the various income classes with an estimate of their effectiveness in the used-car market. The chapter on supply described the sources of used cars and the numerous factors which favored or retarded the growth of this supply.

Prices of used cars are the result of supply and demand. The lack of standardization in the supply of used cars and the limited market information that automotive distributors and consumers possess cause the prices of used cars to be a challenging field of study.

[87] In conversation with the writer, May, 1939, the attorney for the National Automobile Dealers Association, Detroit, made the comment that the U. S. Supreme Court docket is so crowded that unless a law is passed that goes far beyond present legislation the rulings on New Mexico and California will serve as guides to acceptable procedure.

[88] Personal interview, Detroit, Mich., April 17, 1939.

CHAPTER IV

THE DETERMINING OF USED-AUTOMOBILE VALUES

Definition of Terms

The exchange value of a used car may be its retail sales price, its cash value, or its trade-in value in the automobile market.

Retail Sales Price—The retail sales price is that price at which demand becomes effective and the used car is taken off the market.

Cash Value—The term cash value serves several purposes: (1) It represents the purchasing power of the used car in the general market—not the automobile market; (2) it is the amount which dealers normally should pay for a used car which they expect to resell, allowing a sufficient gross margin to yield a reasonable profit on such resale; and (3) it is the maximum amount that conservative finance companies will grant either as a loan to a consumer or as an aid in financing used-car inventories of dealers. In this connection, it is usually designated as the wholesale value. Such finance companies follow the policy of requiring down payments of between 35 per cent and 40 per cent of the retail sales price in the discounting of retail automobile sales paper or in the extending of wholesale financing service to dealers.

The two national organizations which furnish quotations on current values for used cars carry both average cash values, or loan values, and average retail values. In the case of the reports of the National Automobile Dealers Association, the average loan value is calculated to be 35 per cent less than the average retail value. The National Used Car Market Report, Incorporated, quotes cash values at 40 per cent below retail values.

Trade-In Value—Trade-in value represents the purchasing power of the used car in the automobile market. The assumption might be that this amount would approximate the wholesale value, inasmuch as the dealer accepts the used car as part payment on another car in lieu of cash, and must resell it in order to secure his profit on the first sale. However, competition among dealers and the discounts granted to dealers on new cars by manufacturers have had their effects. The trade-in value of a used car on a new car in recent years has been approxi-

mately the same as the retail value of the used car. Manufacturers have maintained that the gross margin allowed on new-car sales is large enough to be spread over the expense of selling a new car and that incurred in disposing of the used cars taken in trade.[1] Dealers, on the other hand, have contended that the rising ratio of used-car sales to new-car sales has made such a margin insufficient inasmuch as two used cars must be sold to liquidate the profit on the new-car sale.[2]

For general purposes, then, it may be considered that trade-in values and retail sales prices tend to be identical.

Factors Which Determine the Resale Value of Used Cars

The value-determining factors for used cars may be segregated into five categories. They are: (1) the original new-car price of the used car, (2) the year and model, (3) the national and local reputations of the make and manufacturer, (4) the appearance and performance of the car, (5) the national and local market conditions.

The Original New-Car Price of the Used Car—The following chapter contains an analysis of the percentage of residual value as of December, for the years 1933-1938, in used cars for the model years 1933-1938, for various price classes of new cars.[3] This summary by price groups reveals, in general, that the higher the price of the car when new, the greater the relative and absolute amount of depreciation suffered annually. The most popular used cars are the one- and two-year-old models in the low-priced new cars. The operating and maintenance expenses for these cars are less than those for the larger and heavier cars. The ready demand for these popular cars has maintained a relatively higher market price for them, resulting in lower depreciation costs to the original new-car buyer, which has further stimulated the purchase of new cars in the low-price class.

The Year and Model—The effect of the age of an automobile upon its market value has been ably described by Mr. Charles F. Kettering, General Director of the Research Laboratories for the General Motors Corporation. He says:

> Human standards are constantly changing. Values do not exist in materials; they exist in the minds of people. As an illustration, let us take one of the cars of latest model and seal it in glass—the premise being that the automobile will change in no way, shape, or form, no matter how long

[1] Discounts vary for dealers and makes of cars, but the average margin is approximately 25 per cent.

[2] This is more fully discussed in the chapter on the sales promotion and selling of used cars—Chapter X.

[3] *See* Summary Table 11, p. 70.

it is allowed to be there. The price of the car, $2,000, is written on the case. A year later, accompanied by a salesman, we go back and the salesman appraises the car at $1,800. Two years later it is appraised at $1,600—$400 less than its original value. The car has not changed but its value in the public's eye has. Better cars than the one in the case can be had for $2,000. In fact, the public realizes the new car is worth $400 more than the one in the case. That is the premium attributable to research.[4]

The type of body also influences the demand for used cars. Four-door sedans and business coupes generally are more stable in price and suffer less depreciation each year than do the less popular models, such as cabriolets and phaetons.

Local and National Reputations of the Make and Manufacturer—The national reputation of some makes of cars and the public confidence enjoyed by their manufacturers have given them ready acceptance in the used-car market. This acceptance may vary in different market areas because of the effects of geographical and climatic conditions. Also, the strength or weakness of a manufacturer's dealer-organization in a local area may affect favorably or adversely a particular make of car.

Appearance and Performance—The condition of the car—its appearance and mechanical operation—must be considered. The condition of the finish, the upholstery, and the tires is obvious, but certain mechanical defects due to excessive use or abuse of the car are much more difficult to detect. By careful examination the dealer can discover such defects, but the average used-car buyer must depend upon the dealer with whom he trades to determine them and *to reflect them in the retail sales price.*

The Local and National Market Conditions—The level of general business activity, nationally and in local areas, combined with national and local supplies of used cars, raises or lowers used-car prices. It is well known that prices for used cars adjust themselves much more rapidly to market conditions than do prices for new cars, because new cars are rigidly priced by the manufacturer.

Market Information on Used-Car Prices

History

During the first 18 years of the automobile industry, dealers were without a guide in establishing the retail prices for used cars which they took in trade or held for sale. Even within a metropolitan market

[4] Charles F. Kettering, *The New Necessity* (Baltimore, Md., 1932), pp. 62–3.

there was no information available as to standards in values for used cars; consequently, prices varied greatly within the market, and were contingent upon the bargaining abilities of the dealers and the consumers.

In 1911, the Chicago Automobile Trade Association took the first known steps in devising a guide for automobile dealers in appraising used cars. All dealers who were members of the association were requested to report their used-car sales by make, model, and price. These data were averaged and dealers were supplied with the composite figures periodically. This service was known as the *Central Market Reports on Used Cars*.[5] By 1914 the service had received national publicity.

The uniqueness of this plan attracted the attention of dealers throughout the country, and this national interest encouraged the Chicago Automobile Trade Association, in the latter part of 1914, to plan a national used-car report which would be issued every three months. The value of the proposed service was commented upon editorially as follows:

> . . . The evils of the used, or second-hand, cars have been with us for many years, numerous plans for their solution have been evolved, but this organization is the only one that appears to be operating along feasible lines. It endeavors not to divulge any of the business secrets of any dealer contributing to the work. The price lists quoted on used cars are based on actual sales, not on appraised values set by committees but on real sales made by dealers. This is the major attraction of the scheme. This gives it reality, not an imaginary value. What Chicago has done other cities should co-operate in and make the national market report a reality. These reports are solely for the dealer and it depends on the dealer as to whether they will eventually be a national success. Every manufacturer should lend his aid to induce dealers to co-operate in furnishing these used-car values from his zone. These market reports are as essential to the automobile dealer as the metal markets are to the metal buyer, or the cotton quotations or grain quotations to their respective buyers.
>
> For years the used car market has been a mart where uncertainty was the only factor to be counted upon. There were no real standards of value —there was no way in which dealers, car makers or owners could tell the approximate value of any used car. By means of the national used-car reports to be issued by the Chicago Association, however, these conditions will be remedied, order will be brought out of chaos and the trade will profit correspondingly.[6]

[5] "Used Car Standards," an editorial in *The Automobile*, XXXI (1914), September 3, 466. *See also* p. 438 of the same issue, wherein details of the early methods of collecting and releasing data are shown.

[6] *Ibid.*, XXXI (1914), December 24, 1176.

The Blue Book—On March 22, 1915, the *Used Car Market Report* of the Chicago Automobile Trade Association appeared for the first time in national form. The data collected covered 7 of the 12 zones into which the United States had been divided, and it was hoped that within the subsequent three months, figures would be available to furnish information on the remaining divisions.[7] The next issue contained data for 41 of the 48 states.[8] The 12 zones were made to correspond with those of the Federal Reserve System, which had been established two years previously.

The price quoted was the average sales price of all sales of a particular model in each zone, and the price was accompanied by the number of cars sold in the classification. In addition to this, an average price for the United States was given for each model. The name of the service was changed with the second issue to National Used Car Market Report, Incorporated.

The complexity of the problem of establishing used-car prices was shown in the first issue, in which it was indicated that 2,903 different gasoline and steam makes and models, and 388 different electric models were handled in the used-car markets. The report, published in March, 1915, listed price data for 131 of the most popular gasoline-car makes, and 14 electrics. Prices were quoted for cars as old as 1910 models.

The Red Book—The same organization, in June, 1915, began the publication of what is currently known as the *Red Book*. It was a pocket edition made up separately for each zone, and contained the following information on each make of car: year, model, list price, number of cylinders, horsepower, the average appraised value in the zone, and the appraised value for the United States. The booklet quoted a price at which the dealer should purchase the car—that is, an estimate of its cash value. In subsequent years, this value has been used frequently for what is known as a shock appraisal, to convince the consumer that his car was worth a great deal less than he thought.

N.A.D.A. Official Used Car Guide—There is another nation-wide source of information on used-car values. In 1918, the National Automobile Dealers Association came into existence, due to the efforts of several automobile dealers to organize for the purpose of lobbying against the Federal Government's restriction on the manufacture of automobiles during the war. In 1933, the National Recovery Act per-

[7] *Ibid.*, XXXII (1915), March 25, 560.
[8] *Ibid.*, June 17, p. 1096.

mitted automobile dealers to establish used-car trade-in allowances through joint action, and to penalize dealers who granted allowances larger than those established by the dealers' codes.[9]

For the benefit of the automobile dealers, the National Automobile Dealers Association instituted its own statistical department to determine the prices that should be allowed by dealers for used cars.

Present Sources of Price Information

National Sources—Since 1934, the National Automobile Dealers Association and the National Used Car Market Report, Incorporated, have competed in the national market for the privilege of reporting prices to dealers. Different market areas favor one or the other; for example, dealers in the Chicago area use the publications of the National Used Car Market Report, Incorporated—*Blue Book* and *Red Book*—while dealers in Cleveland, who are members of the Cleveland Automotive Trade Association, use the N.A.D.A. *Official Used Car Guide*.

Refined by years of experience and by trial-and-error, the methods used by both organizations are quite standardized, although both statistical services are alert to changes and adjust their procedures to the shifting market conditions. Because of the priority of the National Used Car Market Report, Incorporated, the important elements of its present procedure will be discussed first.

The National Used Car Market Report, Incorporated, has divided the country into 6 market areas, and, bi-monthly, publishes retail-sales valuations and cash values for used cars. These geographical divisions seem to be logical in the light of their distance from Detroit, for the cost of transporting new automobiles from Detroit to the extreme corners of the country is not negligible, and is reflected in used-car prices. Other differences in zones can be attributed to the character of the population and its economic interests, and to the topographical character of the country which can be combined with consideration of the extent of good road systems.

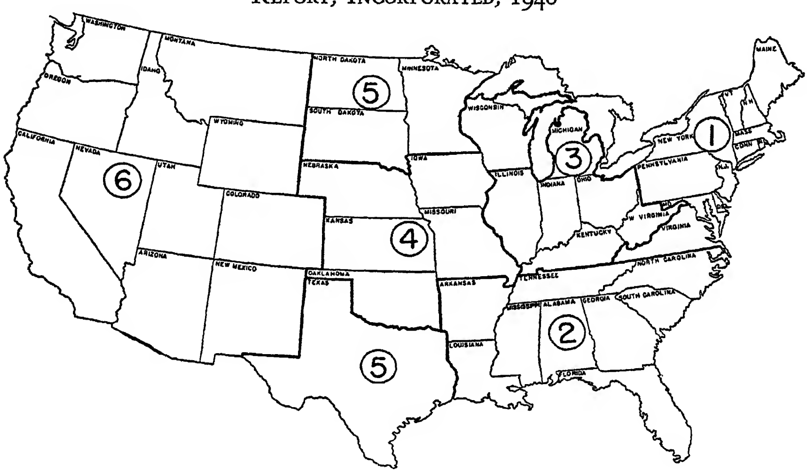
To illustrate the differences in used-car valuations for various areas, an example is taken from the *Blue Book* for July-August, 1940. A 1939 Chevrolet, Model "JA" Master Deluxe, 4-door five-passenger sedan, is quoted at the following average valuations:

[9] A discussion of the National Recovery Act is included in Chapter VIII, which deals with efforts of dealers to limit used-car losses.

Zone	*Retail Sales Values*
1	$562
2	550
3	553
4	568
5	601
6	667
Factory Delivered Price	745

The price estimated for Zone 3 is applicable to the Ohio, Kentucky, Indiana, Illinois, and lower Michigan areas, and Zone 6 embodies the Rocky Mountain and the West Coast areas. A comparison of prices

CHART 1—ZONE MARKETS OF THE NATIONAL USED CAR MARKET REPORT, INCORPORATED, 1940



for these two zones (Zone 3 and Zone 6) shows the same model quoted at $114 more on the West Coast. This reflects chiefly the high transportation costs involved in bringing new cars into this market, inasmuch as comparisons of prices for other cars show the same marked spread between zones. In Zone 2, the southern and southeastern states, the lowest price for this Chevrolet is quoted. Although geographically removed from Detroit, the depressed price in this area can be explained by two factors: (1) It is a poorer market; (2) the wear and tear suffered by cars because of the many unimproved roads in this area depreciates cars much more rapidly.

Chart 1 shows the zone markets in the United States established by the National Used Car Market Report, Incorporated.

The *Blue Book* is now issued in two editions, a separate one for each of the 6 market areas, and an executive edition which presents the data for all of the 6 areas and an average for the United States. The *Red Book*, which is designed primarily for salesmen, gives the current cash price only and lists specifications for practically all cars offered in trade.

The method used in arriving at prices is basically as follows:

1. Prices and values in its recently published reports serve as a base.
2. Data on used-car sales are obtained from dealers.
3. Reports are sent in by fieldmen, giving retail-sales prices in the territories, the asking prices of dealers for various makes of cars, and the used-car inventories of dealers. The inventory analysis is based not only on the number but also on the makes and models which dealers have in stock.
4. In addition, used-car-sales specialists in the territories are brought together for consultation in appraisal meetings on trends in used-car values.
5. General business and seasonal factors are allowed to influence the final prices.[10]

The National Automobile Dealers Association publishes a monthly report for 10 different marketing zones, having decreased this number from 12 in the spring of 1939. Unlike the National Used Car Market Report, Incorporated, state lines are to a considerable extent ignored in determining the districts. District G, which originally included Michigan, northern Illinois, and northern Ohio, was enlarged to take in District C, which included the rest of Ohio, West Virginia, Kentucky, and Indiana, and also District D, the non-contiguous territory of North and South Carolina. This was done because price variations between Districts C, D, and G had been so small that a separate guide service for the three territories seemed needless.

One interesting difference between the N.A.D.A. service and that of its competitor is the N.A.D.A. policy of setting up a separate district for Greater Detroit. The service has found that the prices of used cars in Detroit are generally too low to be incorporated into any other zone.

Not being restricted by arbitrary state lines, the boundaries of zones indicate a shift of prices. This flexibility seems to have considerable

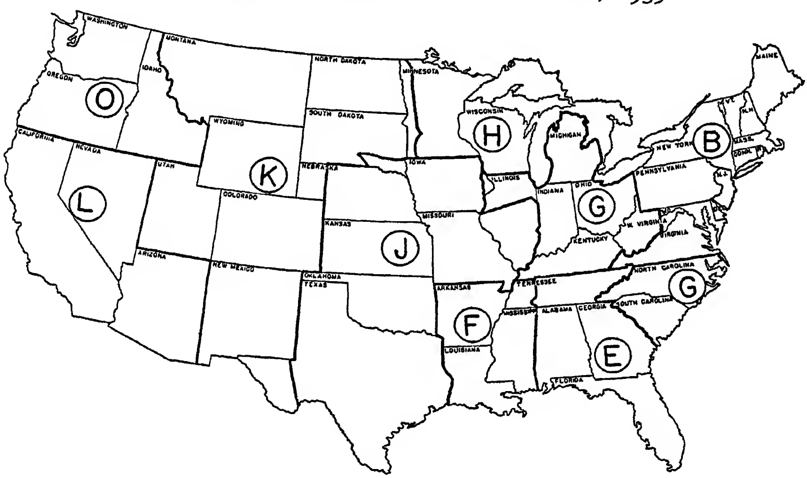
[10] This information was obtained in a personal interview with the General Manager of a company in Chicago, Ill., May 20, 1939.

merit. Chart 2 shows the boundaries in effect in the spring of 1939 for the 10 districts maintained by the N.A.D.A. service.

The procedure which this service follows to obtain its information is basically as follows:

1. Its previous report is used as a starting point for adjustments.
2. Each week the affiliated dealers are requested to fill out a used-car sales report for their weekly sales of used cars, recording the body style, model or series, serial number, dealer's reconditioning cost, and the actual net sales price received.[11] The lowest 20 per

CHART 2—DISTRICT MAP FOR NATIONAL AUTOMOBILE DEALERS ASSOCIATION OFFICIAL USED-CAR GUIDE, 1939



cent of the prices reported are omitted (to eliminate junkers, wrecks, and the cars of questionable repute, such as ex-taxicabs), and an average price is computed for each zone on the remaining 80 per cent.

3. Dealers are classified by the makes of cars they represent. Each month the 6,000 cooperating dealers receive a form especially designed for the make of car they sell. Each dealer is asked to check the prices that he believes are fair retail sales estimates for the five-passenger sedan in each series for the past 8 years,

[11] An interesting footnote appears on the sales report: "If any inflation was made in the selling price to make a greater trade-in allowance, make adjustment to the net sales price so that the report represents the true value."

and that he adjust these prices up or down if, in his opinion, they have changed since the last report. The reports are tabulated and the findings used to adjust previous prices to accord with the composite opinion of dealers.

4. Seasonal factors are considered in establishing the final prices. The advent of spring usually raises the value of used cars. However, there are exceptions. For example, the severe business recession in 1938, together with the heavy inventories of used cars carried by dealers, reversed the usual spring upward trend, and prices declined.
5. New-car prices are watched for price changes, and necessary adjustments are made in used-car prices. For example, the drastic price reductions announced by Packard in May, 1939, ranging from $100 to $300, necessitated a $25 to $40 decrease in the prices of 1938 Packards.
6. In addition to the above factors, the personal evaluation of this assembled market information by the men working with it enters into the equation. For example, violent movements in retail prices, which might occur because of a number of very low sales prices in a district, are not permitted to be reflected in the guide-book prices. An effort is made to adjust prices to the general pattern for used-car prices.[12]

Sectional Sources—Four sectional services on used-car values are published and sold to dealers. *The Northwest Used Car Values* is published by a Packard dealer in Seattle, Washington, Mr. L. W. Thomas; the *Kelley Blue Book* is published by Les Kelley, a used-car dealer in Los Angeles; the *Pacific Coast Official Guide* is published by Mr. Burt Roberts, the executive secretary of the Motor Car Dealers Association of Southern California and of the Los Angeles Motor Car Dealers Association; and finally, the *Market Analysis Report* is published by the Used Car Statistical Bureau, Incorporated, of Boston, Massachusetts. The methods of compiling and distributing this information are similar to those of the two national services, but the data are limited to the immediate regional trading area concerned.[13]

Local Sources—The importance of the national services to dealers should not be underestimated, but dealers in some of the metropolitan

[12] This information was obtained through conversation with the statistician for *The Official Used Car Guide* of the National Automobile Dealers Association, Detroit, Michigan, December, 1938, and April, 1939.

[13] Federal Trade Commission, *Report on Motor Vehicle Industry* (Washington, D. C., 1939), pp. 374-5.

cities have felt that these services are not sensitive enough for their purposes and have sought to institute additional measures to obtain accurate information on local market conditions and prices.

As early as 1923, the Detroit Automotive Association met and suggested that a ticker system might be established for the dealers in the City of Detroit which would give the various automobile dealers almost instantaneous information relative to the prices at which used cars were being sold. They further contended that the used-car business had grown to such size and importance in the Detroit area that used-car quotations might be published daily in the newspapers in much the same manner as stocks, bonds, and commodities.[14] Although this idea has never been regarded as feasible, several associations of dealers in metropolitan areas have inaugurated systems for obtaining weekly used-car-sales reports from the records of the county recorder, giving the make and model, the dealer's name, and the retail sales price for each sale. Such information permits weekly adjustments in used-car prices and not infrequently is used by dealers to point out to the prospective buyer of a used-car, or to a prospective new-car buyer trading in a used car, the current sales price for a particular make and model.

Another guide to dealers is the used-car advertising in newspapers which offers clues as to the current prices of various makes of cars. Several large metropolitan newspapers have compiled abstracts of their classified advertisements and made them available to dealers' groups.[15]

Other market information relating to dealers' used-car inventories compiled by automobile manufacturers, local trade associations, and statistical services will be described in Chapter IX, on inventory control of used cars by dealers.

Use by Dealers of Market Information on Prices—Few used cars are traded or sold at the exact guide-book prices. This is to be expected. The dealer, in accepting a car in trade or in establishing a retail sales price, mentally visualizes for himself the condition of the car quoted at a given price in the guide book. By this standard he evaluates a trade-in or establishes a retail sales price, raising or lowering the amount in accordance with his personal evaluation. Such an appraisal is not always on a sound, rational basis, and often may be performed in a haphazard manner, frequently referred to as a curbstone or show-window appraisal. Such procedures frequently nullify the benefits of

[14] *Automotive Industries*, XLIX (1923), December 29, 1274.

[15] Newspapers in Cleveland, Pittsburgh, and Buffalo have furnished this service at one time or another.

published guides, and result in losses to dealers, and to skepticism on the part of consumers.

Because these appraisals involve the variations of personal opinion, efforts have been made at different times to establish methods by which used-car trade-in values and used-car selling prices could be more objectively determined. Various other measures employed by dealers to control appraisals and so curtail operating deficits are described in Chapter VII.

Comparison of Price Quotations on Used Cars

National and local services and advertised prices have been discussed as sources of current estimates on used-car prices. Table 9 presents a comparison of these three for Cleveland, Ohio, for the first half of 1938.

Prices representing estimates by a national service were chosen from the N.A.D.A. *Official Used Car Guide,* effective from March 9 to April 8, 1938, the midpoint of the period under examination.

For the first six months of 1938, the reports of the Cleveland Automotive Trade Association showed that 16,041 used cars not more than six years old were sold in Cuyahoga County. Of these, 4,375 were 4-door sedans of 11 popular makes, from one to five years old (4-door sedans of other makes were not sufficiently represented in each of the five years to be included). These sedans furnished 55 groups for which average prices could be calculated for this period of time. Although the size of the sample varied for each make and each year, it was judged to be adequate to establish a representative average price.

Information on the average advertised retail prices of used cars was found to be more difficult to secure, for advertisements frequently neglected to give full details regarding models and series. This difficulty was most pronounced with makes of cars for which different series are produced, such as Buick, which annually manufactures four different series—the 40, 60, 80, and 90. Hence, the study was restricted to the advertised prices of Chevrolet, Ford, Plymouth, Terraplane, Dodge, and Pontiac, and the style restricted to 4-door sedans. Since these makes of cars represent fully 70 per cent of all cars sold, the use of the six makes seems reasonable. The sample was comprised of prices from 4,873 advertisements. These were obtained by recording the advertised prices of each of the makes mentioned above from the Friday edition of *The Cleveland Press* for 26 consecutive weeks, starting January 1 and ending July 1, 1938. This edition carried the largest

daily volume of used-car advertising each week. In collecting these data, an effort was made to exclude all wrecks or junkers, such advertisements not being regarded as representative. The tabulated advertised prices were averaged to secure a price for each make of car, which would be representative of the period under consideration.

TABLE 9—THREE COMPARABLE PRICES OF 4-DOOR USED SEDANS OF MODEL YEARS 1937-1933, BY SELECTED MAKES, DURING FIRST HALF OF 1938, IN CLEVELAND, OHIO

Make of Car	Source of Price Data	Average Price in 1938 for Cars of Model Year.				
		1937	1936	1935	1934	1933
Chevrolet	Average Price Paid	$581	$442	$366	$278	$214
	N.A.D.A. Value	550	435	355	280	215
	Advertised Price	514	407	292	236	199
Ford	Average Price Paid	534	384	287	202	162
	N.A.D.A. Value	485	385	305	230	170
	Advertised Price	440	348	254	187	135
Plymouth	Average Price Paid	551	453	352	285	223
	N.A.D.A. Value	555	450	360	283	225
	Advertised Price	539	412	327	260	190
Terraplane	Average Price Paid	553	425	293	229	0
	N.A.D.A. Value	585	460	365	272	0
	Advertised Price	545	400	298	213	0
Dodge	Average Price Paid	643	497	399	319	225
	N.A.D.A. Value	605	495	395	310	225
	Advertised Price	624	451	365	300	225
Pontiac[a]	Average Price Paid	639	456	309	253	210
	N.A.D.A. Value	630	465	380	295	230
	Advertised Price	638	448	349	224	191
Oldsmobile	Average Price Paid	701	537	414	308	257
	N.A.D.A. Value	665	533	410	305	233
DeSoto	Average Price Paid	637	537	358	363	262
	N.A.D.A. Value	630	535	400	315	240
Buick 40	Average Price Paid	774	609	420	361	270
	N.A.D.A. Value	722	555	430	343	260
Packard Light 8	Average Price Paid	858	642	472	457	359
	N.A.D.A. Value	825	605	445	470	340
Studebaker 6	Average Price Paid	643	527	393	278	217
	N.A.D.A. Value	643	545	396	302	230

[a] Pontiacs, for many years, have been popular in Cleveland for taxicabs. The entrance of these taxicabs into the used-car market makes price comparisons difficult.

Sources:

Average Price Paid: The average of all prices paid in Cuyahoga County from January 1, 1938, to July 1, 1938, for 4-door sedans, calculated from reports compiled by the Cleveland Automotive Trade Association.

N.A.D.A. Value: The Guide Book prices effective between March 9 and April 8, 1938, for the Cleveland area.

Advertised Price: An average of prices advertised in *The Cleveland Press* on 26 consecutive Fridays between January 1 and July 1, 1938.

With the exception of prices for one year, 1937, the N.A.D.A. guide-book prices were generally in harmony with the sample of actual prices at which used cars were sold in Cleveland. The N.A.D.A. prices for 1937 cars were lower for 8 out of the 11 makes of cars, exactly the same for one, and higher for two. The high actual Cleveland retail prices for late-model Buicks, Packards, Oldsmobiles, and Dodges as related to the averages for the area are attributable, in part, to the splendid reputation and high caliber of their Cleveland distributors and dealers.

Advertised prices of used cars fail to merit a great deal of confidence as a guide to used-car prices. They have been used by dealers to convince new-car buyers that they were asking too much for their cars in trade.

The actual sales prices were considerably higher than newspaper advertised prices. The differences are summarized below in a tabulation of the average per cent by which advertised prices exceeded or were less than the average actual prices paid:

Make of Car	*Per Cent Average Advertised Prices Were Below Average of Actual Prices Paid*	*Per Cent Average Advertised Prices Were Above Average of Actual Prices Paid*
Chevrolet	12	0
Ford	13	0
Plymouth	7	0
Dodge	7	0
Terraplane	3	0
Pontiac	0	1

The reasons for the wide variation in newspaper advertised prices as compared with actual retail prices will be discussed in Chapter X, on the sales promotion and selling of used cars.

For an examination of the behavior of prices for a number of models and makes over a six-year period, the source of data must be one of the national services, for they only can furnish continuous data for a protracted period of time. In the following chapter an analysis is made of the price structure of used cars for 45 different makes and models.

CHAPTER V

AN ANALYSIS OF USED-CAR PRICES AND THEIR EFFECT UPON THE AUTOMOBILE INDUSTRY AND THE CONSUMER

The chapters on the supply of and the demand for used cars presented a broad view of the importance of used-car prices in the automobile market. It is the purpose of this chapter to examine the estimated retail sales values for 45 different makes and series of automobiles for a single style of body, covering quotations on values for models manufactured between the years 1932 and 1938.

Prices of individual makes of cars may be compared, the variations which take place within price classes may be noted, and the effect of changing business conditions over the six-year period may be observed. The findings from these analyses will then be utilized in examining: (1) the effect of the prices of used cars upon the operations of the automobile manufacturers; (2) the importance of used-car prices to the automobile dealer; (3) the interest and concern of the automobile finance companies in used-car prices and their trends; and (4) the consequence of prices to consumers—the 10 million prospective new-car buyers, and the 13 to 15 million regular and potential used-car buyers who are affected by the selling prices of used cars.

Used-Car Prices

Price Comparisons by Individual Makes and Series

The 45 makes and series of 4-door sedans used in this analysis of used-car prices (Table 10) probably represent more than 95 per cent of the 4-door sedans sold in the used-car market. These include the makes of General Motors, Chrysler, Ford, the major independent manufacturers, and five makes that are known to the trade as orphans—cars whose manufacturers either have discontinued that make of car or have completely withdrawn from the production of automobiles. The makes and series omitted from this study were those of minor significance in the used-car market, those in which drastic changes had taken place in price policies, or those subject to intermittent production.

Table 10 presents an estimate of the residual value in per cent of

original delivered price in Cleveland, of each car model considered, for each year from 1933 through 1938. This value has been expressed as a ratio to original sales price rather than as an actual price in order to present a clearer picture of the price trends of a particular car, and to permit comparisons among cars in different price groups. The price in dollars can be obtained by applying the percentage to the original new-car price, as shown in Table 10.[1]

The significance and use of the data may be explained by taking the Buick 40 or 50 Series as an example. The 1932 model, delivered originally in Cleveland at $1,130, was estimated to be worth only 58 per cent of its delivered price at the end of 1933; 46 per cent, at the end of 1934; and 12 per cent, at the end of 1938. The value of the 1938 model, by the end of the model year, was estimated to be 67 per cent of its original delivered price. The 1938 quotations on 1938 models are not comparable with percentages for models older than the current model, as explained in footnote *a*, Table 10. These models are less than one year old and, for the most part, represent salesmen's demonstrators, which customarily are not driven in excess of 90 days. The 1938 percentages for the various makes and models may be compared with one another.

Chevrolets, Fords, and Plymouths account for more than 60 per cent of new and used cars sold. Thus, the greatest interest lies in the sales activity and price movements of these three makes. A comparison of the percentages of residual value for Chevrolet, Ford, and Plymouth cars shows them to have approximately equal resale values. The exceptionally low resale value of the 1932 Plymouth in 1933 can be explained by two factors: (1) the severe drop in the new Plymouth prices that year, and (2) the discontinuance of the four-cylinder model in favor of a six-cylinder car. The 1936 and 1937 Plymouth cars, on the other hand, had a higher resale value, relatively, than either Ford or Chevrolet cars, indicating Plymouth's popularity in the used-car market.

Dodge and Pontiac, in the price class just above the three lowest-priced cars, annually battle for sales leadership. New Dodges, in recent years, have outsold new Pontiacs by a small margin, and this sales leadership is reflected in the slightly higher relative resale value of the

[1] The average retail sales values were obtained from data supplied by the National Automobile Dealers Association, in the form of estimated average cash or loan values as of the end of each year. To secure these cash values, the N.A.D.A. *Guide* reduced the average retail sales values by stated percentages. Before such data could be used in the present chapter, the quoted value had to be adjusted from 65 per cent to 100 per cent for the model years 1934 through 1938, from 75 per cent to 100 per cent for the model year 1933, and from 80 per cent to 100 per cent for the model year 1932.

TABLE 10—RETAIL SALES VALUES AS RATIOS OF ORIGINAL DELIVERED PRICES OF 4-DOOR SEDANS OF 45 SELECTED MAKES AND SERIES OF AUTOMOBILES IN CLEVELAND, OHIO, 1933-1938

(Source: Calculated from data derived from N.A.D.A. *Official Used Car Guide* and original delivered prices of new cars in Cleveland, Ohio, secured from the Cleveland Automotive Trade Association.)

Year Model	Original Delivered Price	Per Cent of Original Price Remaining at End of Year					
		1933	1934	1935	1936	1937	1938
	Dollars	*Per Cent*	*Per Cent*	*Per Cent*	*Per Cent*	*Per Cent*	*Per Cent*
Auburn							
1932	1,040	53	36	30	21	13	9
1933	975		46	40	30	20	13
1934	1,675			53	33	21	11
1935	1,195				52	33	19
1936							
1937							
1938[a]							
Buick 40 or 50							
1932	1,130	58	46	36	25	19	12
1933	1,192		63	43	33	25	16
1934	1,358			51	37	29	20
1935	1,027				55	45	32
1936	1,045					58	45
1937	1,050						60
1938[a]	1,077						67[a]
Buick 60							
1932	1,460	48	38	29	21	15	10
1933	1,470		54	38	28	21	14
1934	1,638			49	32	24	17
1935	1,611				40	30	21
1936	1,284					51	38
1937	1,266						53
1938[a]	1,299						62[a]
Buick 80							
1932	1,740	46	35	25	18	13	8
1933	1,748		49	33	24	18	12
1934							
1935							
1936	1,466					45	34
1937	1,581						43
1938[a]	1,673						58[a]
Buick 90							
1932	1,815	47	35	25	18	13	8
1933	1,990		50	31	21	16	10
1934	2,180			45	27	19	13
1935	2,174				35	23	16
1936	2,007					36	25
1937	2,166						33
1938[a]	2,207						53[a]

TABLE 10—(CONTINUED)

Year Model	Original Delivered Price	Per Cent of Original Price Remaining at End of Year 1933	1934	1935	1936	1937	1938
	Dollars	*Per Cent*	*Per Cent*	*Per Cent*	*Per Cent*	*Per Cent*	*Per Cent*
Cadillac V-8							
1932	3,070	54	35	24	15	8	5
1933	3,120		45	33	20	13	7
1934	2,845			48	30	19	12
1935	2,665				41	26	17
1936	1,830					44	31
1937	1,795						42
1938[a]	1,830						59[a]
Cadillac V-12							
1932	3,785	46	33	23	13	7	4
1933	3,855		46	31	18	11	6
1934	4,525			47	26	13	7
1935	4,360				36	17	11
1936	3,430					32	19
1937	3,670						29
1938[a]	3,360						52[a]
Chevrolet							
1932	719	57	51	43	32	25	17
1933	667		69	58	44	37	23
1934	640			64	50	40	27
1935	624				64	52	38
1936	670					63	47
1937	758						54
1938[a]	751						68[a]
Chevrolet Master							
1932							
1933							
1934	757			63	49	41	27
1935	724				64	54	39
1936	759					63	47
1937	835						55
1938[a]	817						68[a]
Chrysler 6							
1932	1,010	49	35	29	23	17	11
1933	990		57	47	37	29	19
1934	957			60	48	38	26
1935	947				58	48	35
1936	1,000					59	43
1937	930						60
1938[a]	1,025						68[a]
Chrysler Royal 8							
1932							
1933	1,150		55	46	34	25	16
1934							
1935	1,098				55	42	30
1936	1,180					53	37
1937	1,160						52
1938[a]	1,221						63[a]

TABLE 10—(CONTINUED)

Year Model	Original Delivered Price	Per Cent of Original Price Remaining at End of Year					
		1933	1934	1935	1936	1937	1938
	Dollars	*Per Cent*	*Per Cent*	*Per Cent*	*Per Cent*	*Per Cent*	*Per Cent*
Chrysler Airflow							
1932							
1933	1,585		49	37	27	19	12
1934	1,808			54	36	22	14
1935	1,605				52	33	22
1936	1,645					45	29
1937	1,652						41
1938[a]							
DeSoto							
1932	875	36	33	30	23	17	12
1933	898		59	49	39	31	20
1934	1,152			55	41	32	21
1935	910				59	49	35
1936	935					63	45
1937	889						60
1938[a]	985						68[a]
Dodge							
1932	965	52	44	35	26	20	13
1933	783		63	53	41	32	20
1934	892			60	49	39	25
1935	827				63	53	38
1936	840					65	49
1937	840						62
1938[a]	923						69[a]
Ford V-8							
1932	659	59	53	45	34	25	17
1933	674		67	53	41	32	19
1934	670			65	50	40	24
1935	659				64	50	35
1936	668					63	46
1937	712						56
1938[a]	754						66[a]
Ford V-8 Deluxe							
1932	700	57	50	43	33	24	17
1933	730		62	50	39	33	18
1934	711			63	49	39	23
1935	721				62	49	33
1936	714					63	44
1937	780						55
1938[a]	815						66[a]
Ford V-8 (60)							
1932							
1933							
1934							
1935							
1936							
1937	679						48
1938[a]	728						64[a]

TABLE 10—(CONTINUED)

Year Model	Original Delivered Price	Per Cent of Original Price Remaining at End of Year					
		1933	1934	1935	1936	1937	1938
	Dollars	Per Cent	Per Cent	Per Cent	Per Cent	Per Cent	Per Cent
Graham							
1932	925	43	33	25	19	14	10
1933	945		53	44	34	25	15
1934	916			51	41	32	20
1935	962				54	41	27
1936	780					59	42
1937	795						54
1938[a]	1,085						60[a]
Hudson 6							
1932							
1933	1,013		43	36	29	23	14
1934	925			61	50	39	22
1935	874				60	50	33
1936	928					61	41
1937	997						56
1938[a]	1,051						63[a]
Hudson 8							
1932	1,195	50	36	29	22	16	9
1933	1,300		40	35	29	21	11
1934	1,020			61	48	37	20
1935	955				59	47	31
1936	994					59	41
1937	1,058						55
1938[a]	1,127						63[a]
Hudson Custom 8							
1932	1,575	45	30	26	18	13	7
1933	1,710		40	30	24	17	9
1934	1,333			58	42	31	18
1935	1,258				52	39	25
1936	1,081					57	39
1937	1,185						51
1938[a]	1,222						61[a]
Hupmobile							
1932	1,097	50	36	30	21	12	9
1933	1,139		51	41	30	20	12
1934	1,028			51	38	25	16
1935							
1936	984					41	29
1937							
1938[a]							
Lafayette							
1932							
1933							
1934	808			58	43	35	24
1935	773				58	46	34
1936	792					57	44
1937	859						58
1938[a]	894						67[a]

TABLE 10—(CONTINUED)

Year Model	Original Delivered Price	Per Cent of Original Price Remaining at End of Year 1933	1934	1935	1936	1937	1938
	Dollars	*Per Cent*	*Per Cent*	*Per Cent*	*Per Cent*	*Per Cent*	*Per Cent*
LaSalle							
1932	2,670	55	37	24	15	8	5
1933	2,395		53	33	20	13	8
1934	1,825			49	32	22	15
1935	1,690				40	32	22
1936	1,360					51	36
1937	1,355						51
1938[a]	1,445						62[a]
Lincoln							
1932	3,265	52	33	23	13	7	4
1933	3,265		50	34	20	12	7
1934	3,550			48	27	16	9
1935	4,500				39	21	11
1936	4,500					33	15
1937	4,600						28
1938[a]	5,100						50[a]
Lincoln-Zephyr							
1932							
1933							
1934							
1935							
1936	1,405					50	35
1937	1,339						50
1938[a]	1,460						62[a]
Nash 6							
1932	953	37	35	26	20	15	10
1933	866		55	45	34	26	17
1934	953			56	44	36	23
1935	1,074				52	43	30
1936	858					57	42
1937	1,070						57
1938[a]	1,085						65[a]
Nash 8							
1932	1,077	37	33	26	19	15	9
1933	960		52	42	32	26	16
1934	1,268			54	37	28	18
1935	1,325				46	36	25
1936	1,160					53	39
1937	1,210						52
1938[a]	1,235						62[a]
Oldsmobile 6							
1932	1,035	40	40	31	23	18	12
1933	950		59	48	37	28	18
1934	861			62	51	41	27
1935	891				60	51	37
1936	933					63	47
1937	995						58
1938[a]	1,039						67[a]

TABLE 10—(CONTINUED)

Year Model	Original Delivered Price	Per Cent of Original Price Remaining at End of Year					
		1933	1934	1935	1936	1937	1938
	Dollars	*Per Cent*	*Per Cent*	*Per Cent*	*Per Cent*	*Per Cent*	*Per Cent*
Oldsmobile 8							
1932	1,135	41	39	30	23	17	10
1933	1,060		55	45	35	26	16
1934	1,103			58	43	33	21
1935	1,053				57	45	32
1936	1,068					56	42
1937	1,122						53
1938[a]	1,175						62[a]
Packard 6							
1932							
1933							
1934							
1935							
1936							
1937	1,115						53
1938[a]	1,099						67[a]
Packard Light 8							
1932	2,060	61	41	29	19	13	7
1933	2,365		57	38	26	17	10
1934	2,525			49	32	22	13
1935	2,610				44	28	18
1936	2,619					43	25
1937							
1938[a]							
Packard 8							
1932	2,405	54	39	27	17	10	6
1933	2,585		54	37	24	16	9
1934	2,790			47	30	22	13
1935	2,815				44	28	17
1936	2,823					41	24
1937	2,710						39
1938[a]							
Packard Super 8							
1932	3,680	45	30	20	12	7	4
1933	2,950		53	37	23	14	8
1934	3,180			46	29	19	11
1935	3,250				42	26	15
1936	3,259					39	23
1937	2,870						38
1938[a]	2,860						58[a]
Packard 12							
1932	4,560	41	29	20	12	6	3
1933	4,100		44	30	19	11	6
1934	4,210			45	27	15	9
1935	4,255				42	24	13
1936	4,263					35	19
1937	3,965						34
1938[a]	4,220						53[a]

TABLE 10—(CONTINUED)

Year Model	Original Delivered Price	Per Cent of Original Price Remaining at End of Year					
		1933	1934	1935	1936	1937	1938
	Dollars	*Per Cent*	*Per Cent*	*Per Cent*	*Per Cent*	*Per Cent*	*Per Cent*
Pierce-Arrow 8							
1932	2,895	54	35	22	14	7	4
1933	3,215		43	27	19	13	7
1934	3,105			44	29	17	10
1935	3,105				44	27	14
1936	3,420					35	18
1937							
1938[a]							
Plymouth							
1932	710	39	31	31	25	20	14
1933	597		64	57	45	36	22
1934	692			64	51	41	27
1935	700				62	51	35
1936	687					62	46
1937	682						60
1938[a]	747						69[a]
Plymouth Deluxe							
1932	790	41	39	38	28	22	15
1933	675		70	57	45	37	23
1934	786			61	49	40	26
1935	752				62	52	37
1936	767					64	48
1937	762						61
1938[a]	826						69[a]
Pontiac 6							
1932	843	53	46	38	27	20	14
1933							
1934							
1935	804				61	50	36
1936	826					61	47
1937	935						57
1938[a]	942						69[a]
Pontiac 8							
1932	1,028	44	35	29	21	16	10
1933	808		66	53	40	31	18
1934	894			60	46	36	23
1935	929				58	47	33
1936	920					58	45
1937	1,008						56
1938[a]	1,032						68[a]
Reo Flying Cloud							
1932	1,095	46	34	28	20	11	8
1933	1,145		42	36	25	16	11
1934	1,015			57	42	25	16
1935	975				52	35	23
1936	995					43	31
1937							
1938[a]							

TABLE 10—(CONTINUED)

	Year Model	Original Delivered Price	Per Cent of Original Price Remaining at End of Year					
			1933	1934	1935	1936	1937	1938
		Dollars	*Per Cent*	*Per Cent*	*Per Cent*	*Per Cent*	*Per Cent*	*Per Cent*
Studebaker 6								
	1932	991	58	46	35	25	19	12
	1933	1,058		52	41	31	25	14
	1934	854			60	48	39	24
	1935	882				57	49	35
	1936	887					67	49
	1937	915						60
	1938[a]	995						69[a]
Studebaker 8								
	1932	1,467	48	35	28	20	13	9
	1933	1,555		46	34	24	17	10
	1934	1,421			49	34	25	15
	1935	1,527				47	32	23
	1936	1,228					53	38
	1937	1,230						50
	1938[a]	1,235						64[a]
Terraplane								
	1932							
	1933							
	1934	786			61	49	37	22
	1935	749				64	54	33
	1936	787					64	44
	1937	810						58
	1938[a]	892						66[a]
Terraplane Super								
	1932							
	1933							
	1934	856			59	48	37	22
	1935	808				63	53	33
	1936	849					62	42
	1937	890						56
	1938[a]	940						66[a]

([a]) The 1938 percentages relate to the current model of car and are not comparable with the other percentages which are based on prices for cars after they are one or more years old. These percentages may be compared with the current percentage for other models and makes.

NOTE: N.A.D.A. data were issued March, 1939, as a summary of used-car values for the State of Illinois as of the month of December for the years 1933-1938, inclusive, for tax purposes for Illinois dealers. Prices are considered to be applicable to Cleveland, inasmuch as the city is in the same price zone as Illinois.

Dodge in this used-car market area. It is also significant that the annual percentages of change from year to year in retail sales value for Dodges and Pontiacs vary little from the low-priced "Big Three."

The Hudson 6, the Lafayette, and the Graham also are in this price classification. When the Hudson 6 and the Nash-Lafayette have somewhat lower percentages of remaining values, Graham suffers severely

in comparison. For example, a 1937 Graham ($795 delivered) was sold in 1938 for only 54 per cent of its original retail price, while a Dodge ($840 delivered) sold for 62 per cent, indicating that the Graham suffered an 8 per cent greater depreciation over the course of one year.

The Oldsmobile 6 and the DeSoto compete in the same price market, and, with the exception of the 1934 Airflow DeSoto, the used-car prices of these competing makes have been in general harmony.

The small Buick—Series 50 for 1932 and 1933, and since then, Series 40—selling for the past four years in the $1,000 to $1,100 market has, perhaps, a stronger hold on its price market than any other make of car. With the exception of 1934, when the Buick 40 stepped out of its accepted price class, selling for $1,358, used Buicks have consistently brought a relatively higher price than the cars of competitors.

Other cars competing in this market are the Chrysler Royal 6, the Hudson 8, the Nash 6, the Oldsmobile 8, the Auburn, the Hupmobile, and, in the last two years, the Packard 6. The rapid fall in the used-car values of Auburn and Hupmobile in 1936, 1937, and 1938 shows the effect on the value of used cars when the manufacturer withdraws from production and the make of car becomes known as an orphan.

The heavy depreciation experienced by cars selling originally for $1,500 or more[2] can be explained by two factors: (1) A depreciation of less than 50 per cent after one year's use would still price these cars above the prices of many new cars—generally speaking, people who can afford a new car prefer it to a used one; (2) the high cost of maintenance and operation of these larger cars deters the average used-car buyer who must consider economy of operation.

The marked drop in residual values may be noted after one year's service for such cars as Lincoln (from 52 per cent to 28 per cent over the six-year period) and Packard 8 (from 54 per cent to 39 per cent).

While the annual decline of the retail sales value of a car, in percentage, is revealing, the actual annual decline in dollars may indicate more realistically the changing values from year to year. In Table 11, certain makes have been selected to serve as illustrations of dollar changes in values from year to year. The price of the 1933 new model, delivered, is shown, and the history of the price changes for each of the five subsequent years is presented. The graphic presentation of the same data is shown in Chart 3.

The range in delivered prices for these cars under consideration extends from $667 to $3,265; by the end of 1938, the range of residual

[2] *See* Table 12, *infra.*

values was from \$154 to \$225. During the first three years, Packard and Buick prices declined at approximately the same rates. In the next two years, the Packard, which originally sold for almost double the Buick price, dropped in value more rapidly than did the Buick, but,

TABLE 11—ORIGINAL PRICE AND SUBSEQUENT ANNUAL RETAIL SALES VALUES OF 1933 MODELS OF SELECTED MAKES OF AUTOMOBILES IN CLEVELAND, OHIO, 1933-1938.

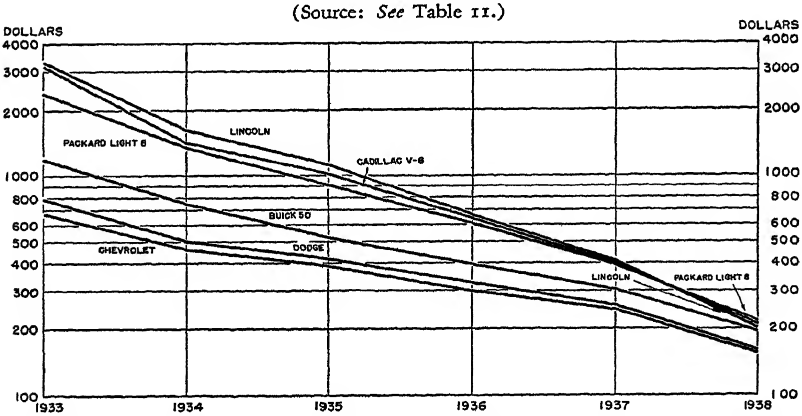
(Source: *See* Table 10 for description of sources.)

Make of Car	Original Delivered Price in Cleveland for 1933 Model	Retail Sales Value of 1933 Model at End of-[a]				
		1934	1935	1936	1937	1938
	Dollars	*Dollars*	*Dollars*	*Dollars*	*Dollars*	*Dollars*
Chevrolet	667	461	385	294	245	154
Dodge	783	496	417	323	254	160
Buick 50	1,192	752	518	394	300	194
Packard Light 8	2,365	1,344	900	605	394	225
Cadillac V-8 ..	3,120	1,416	1,026	631	400	220
Lincoln	3,265	1,624	1,138	654	405	214

[a] The sales values in this table were calculated by the use of percentages to two decimal places. Consequently, small differences will appear if the rounded percentages as given in Table 10 are used.

CHART 3—ORIGINAL DELIVERED PRICE IN CLEVELAND AND SUBSEQUENT ANNUAL RETAIL VALUES OF SELECTED MAKES OF USED CARS, 1933-1938

(Source: *See* Table 11.)



during the fourth year, both the high-priced Cadillac and the Lincoln dropped in actual price below the Packard. It is at this point that the style value or subjective value probably lost whatever remained of its earlier appeal to customers.

TABLE 12—AVERAGE[a] OF RATIOS OF RETAIL SALES VALUES TO ORIGINAL DELIVERED PRICES OF 4-DOOR USED SEDANS, IN CLEVELAND, OHIO, BY CLASSES OF ORIGINAL DELIVERED PRICES, 1933-1938

(Source: *See* Table 10 for description of source)

Model Year	Original Delivered Price by Classes	Average Per Cent of Original Price Remaining at End of:					
		1933	1934	1935	1936	1937	1938
1932	Under $ 825	51	45	40	30	23	16
	825- 999	47	39	32	23	17	12
	1,000-1,199	46	39	30	22	17	10
	1,200-1,499	44	34	27	19	14	9
	1,500-2,499	53	37	25	17	11	7
	2,500 & over	46	31	21	13	7	4
1933	Under 825		67	55	43	34	21
	825- 999		57	47	36	28	17
	1,000-1,199		54	43	33	25	15
	1,200-1,499		48	36	27	20	12
	1,500-2,499		50	34	23	16	10
	2,500 & over		48	33	20	12	7
1934	Under 825			63	50	40	25
	825- 999			58	47	37	23
	1,000-1,199			57	43	34	21
	1,200-1,499			52	36	27	17
	1,500-2,499			49	31	21	13
	2,500 & over			46	27	16	9
1935	Under 825				63	52	36
	825- 999				59	49	34
	1,000-1,199				56	44	31
	1,200-1,499				46	34	24
	1,500-2,499				43	28	19
	2,500 & over				40	22	12
1936	Under 825					63	46
	825- 999					61	45
	1,000-1,199					57	41
	1,200-1,499					53	38
	1,500-2,499					44	30
	2,500 & over					35	19
1937	Under 825						56
	825- 999						58
	1,000-1,199						55
	1,200-1,499						51
	1,500-2,499						42
	2,500 & over						32
1938[b]	Under 825						67[b]
	825- 999						67[b]
	1,000-1,199						65[b]
	1,200-1,499						62[b]
	1,500-2,499						58[b]
	2,500 & over						53[b]

[a] The averages are simple, unweighted arithmetic means of percentages of all cars included in each price group. The averages were calculated by the use of percentages to two decimal places. Consequently, small differences will appear if the rounded percentages in Table 10 are used. It was not possible to secure data on volume of sales broken down into classifications by series of models. An examination of the data included in each average failed to reveal much variation among the percentages used for each mean.

[b] The 1938 percentages relate to the current model of car and are not comparable

Price Comparisons by Manufacturing Groups

Frequently one hears discussions of the resale value of cars manufactured by General Motors, Chrysler, Ford, and the "independent" manufacturers. It is the opinion of the trade that the products of the three great manufacturing groups have higher resale values, and, consequently, the consumer is wise to purchase one of their makes. No generalized statement can be made on this point. Although it is true that the majority of the makes of General Motors, Chrysler, and Ford show a higher average resale value than do the products of the independents as a group, certain models and makes—for example, the Chrysler and DeSoto Airflow—had poor resale values. Packard cars, in their respective price classifications, have had resale values that have been fully as high, if not higher, than the products of any manufacturer. Studebaker, Nash, and Hudson, although suffering somewhat greater yearly depreciation than Buick, which is the leader in their price group, are not at a great disadvantage in the used-car market, as indicated by their prices. However, they are not as acceptable, generally, as trade-ins on new cars as are most of the products of the large manufacturing groups.

Used-Car Price Comparisons by New-Car Price Classes

In Table 12 the 45 different makes and series are grouped into six price classes for year models, 1932 through 1938. The divisions are arbitrary but, in general, adhere to new-car market price lines. Where an occasional new-car price exceeded or fell below the price class which seemed applicable, an average of the new-car prices from 1932 to 1938 was calculated to determine the price group for that car.

The data in Table 13, composed of the experience of the six price classifications, depict the pattern which used-car prices have followed over the course of the past five years.

with the other percentages which are based on prices for cars after they are one or more years old. These percentages may be compared with the current percentage for other models and makes.

NOTE: The following cars are included in the various price classes:

Under $825: Chevrolet, Chevrolet Master, Ford V-8, Ford Deluxe V-8, Ford Series 60, Plymouth, Plymouth Deluxe, and Terraplane.

$825 to $999: Chrysler 6, DeSoto, Dodge, Graham, Hudson 6, Lafayette, Oldsmobile 6, Pontiac 6, Pontiac 8, Studebaker 6, and Terraplane Super.

$1000 to $1199: Buick 40 or 50, Chrysler Royal 8, Hudson 8, Nash 6, Oldsmobile 8, and Packard 6.

$1200 to $1499: Buick 60, Hudson Custom 8, Lincoln Zephyr, Nash 8, and Studebaker 8.

$1500 to $2499: Buick 80, Buick 90, Cadillac V-8, Chrysler Airflow, LaSalle, and Packard Light 8.

$2500 and over: Cadillac V-12, Lincoln, Packard Super 8, and Packard 12.

From Table 13 it is seen that cars selling under $825 suffer a decline in sales value of 39 per cent the first year, and 10 per cent of the original price for each of the next three years, and, in the fifth year, experience an 8 per cent decrease in per cent of original value.

Cars selling from $825 to $1,000, as might be expected, undergo a greater percentage reduction in sales value in the first year than do those in the lowest bracket. This probably springs from the fact that style value represents some of the difference in these two price classifications, but such value is largely lost in the used-car market, where economical and dependable transportation primarily is sought. The second, third, and fourth years show a steady degree of depreciation from the original price—12 per cent for the second year, and 10 per cent, respectively, for the third and fourth years.

TABLE 13—ESTIMATED AVERAGE PER CENT OF RETAIL SALES VALUE REMAINING IN CARS 1 TO 6 YEARS OLD, BY PRICE CLASSES

(Source: Calculated from Table 12)

Price Group	Per Cent of Value Remaining in Cars:					
	New	1 Year Old	2 Years Old	3 Years Old	4 Years Old	5 Years Old
Under $ 825	100	61	50	40	30	22
825- 999	100	57	45	35	25	17
1,000-1,199	100	54	42	32	23	16
1,200-1,499	100	49	35	26	19	13
1,500-2,499	100	47	32	22	15	10
2,500 & over	100	41	26	17	11	7

The residual values after one year of use, in the cars in the four price classifications above $1,000, show that the higher the new-car price originally, the greater is the depreciation during the first year, not only in actual dollars but in percentage of the original price.

Cars of the lowest price classification sell at 61 per cent after one year, while cars selling at $2,500 and up are worth only 41 per cent, indicating the heavy depreciation which the high-priced cars are forced to accept in the used-car market.

While the decrease in the value of a car one year old ranges from 39 per cent to 59 per cent, depending upon its price classification, the annual decrease in the value of the first three classifications for the second, third, and fourth years of life is approximately 10 per cent. The cars in the three upper price classes suffered a much greater decline in value the first and second years, but experienced a relatively small amount of depreciation in their third, fourth, and fifth years. The percentage of residual value for each of these classes at the end of the fifth year ranges from 22 per cent to 7 per cent.

Effect of Business Conditions on Used-Car Prices

From time to time, there are shifts in the levels of value for used cars. During the four-year period from 1934 through 1937, there was considerable stability in used-car prices. In contrast, used cars were universally lower in price in 1933, and, with only five exceptions, were considerably lower in 1938. The sensitivity of used-car prices to business conditions is easily understood.

The Effect of Used-Car Prices on the Automobile Manufacturer

The automobile industry frequently has looked upon the used car as an unwelcome problem and has neglected to consider that the used car, which is a very salable chattel, is one of the industry's greatest assets. The 25 million cars in operation represent not only a quantity of unused transportation but stand for exchange value or buying power in the automobile market. The importance of this is particularly pronounced in the new-car market, for nine out of ten new-car buyers offer trade-ins as partial payment on their purchases.

To say that the cash differential between the trade-in allowance and the new-car price is of singular importance in determining whether or not the purchase is made in no way detracts from the engineering skill of the industry and the high quality of advertising and sales promotion which have greatly stimulated consumers' desires to own new cars.

A graph of annual sales of new automobiles superimposed upon a chart of general business activity would indicate that, in periods of depression, new-car sales fall considerably below the general trend. This can be explained, in part, by the nature of the commodity—a consumer's good of high unit value and of relatively long life. Mr. Scoville has developed the concept that the unused mileage in the hands of consumers explains why the drop in new-car sales is severe.[3]

The study of used-car prices also indicates that the rigidity of new-car prices and the flexibility of used-car prices contribute to the wide annual variations in new-car sales.

An analysis of automobile prices in 1938, one of the automobile industry's poorest years, reveals that new-car prices were higher for 33 of the 40 active makes studied, and slightly lower in 5 cases. Automobile manufacturers had established their prices for 1938 in the last quarter of 1937 in the wake of higher labor and materials costs. However, in this same year, 1938, used-car prices, on such stable cars as a one-year-old Chevrolet, had dropped to 54 per cent of the original value

[3] John Scoville, Statistician, The Chrysler Corporation, "Reasons for the Fluctuations in Automobile Production." *Proceedings of the 1938 Ohio Conference of Statisticians on Business Research* (Bureau of Business Research, Ohio State University, Columbus, Ohio,

as against a 63 per cent valuation of a one-year-old Chevrolet in 1937. Similar decreases were noted throughout the used-car market.

The years 1934-1937 represented relatively stable business conditions in the automobile industry, and a comparison of 1938 used-car prices with those for this period, 1934-1937, is revealing. Prices of standard models of Chevrolet, Ford, and Plymouth, as shown in Table 10, have been selected to serve as illustrations.

Chevrolet, Ford and Plymouth Used Cars (Type and age)	*Range of Used-Car Retail Prices in Per Cent of Original Delivered Prices* 1934–1937 (Per Cent)	1938 (Per Cent)
Sedans 1 year old	62–69	54–60
Sedans 2 years old	50–58	46–47
Sedans 3 years old	40–45	35–38

In the above tabulation, the 1932 and 1933 models for Plymouth were excluded from the two- and three-year-old car prices in 1934 and 1935 because these models had exceptionally low resale values due to model changes and to severe price changes. This tabulation suggests that at no time during the period 1934-1938 were used-car prices, relative to original prices, as low as they were in 1938.

The 1938 new-car prices not only did not adjust themselves to the changed conditions, but moved directly counter to the current trend. Chevrolet prices[4] for 1938 were almost identical with their 1937 prices—the standard sedan delivered for $751 in 1938 as against $758 in 1937. The Ford price increased in 1938 to $754 from $712 in 1937; the Plymouth, to $747 from $682 in 1937.

The lower used-car prices and the higher new-car prices greatly increased the spread between the new-car price and the trade-in value of the used car. This enlarged cash difference between new- and used-car prices in a depressed market cannot be ignored as a salient factor in further slowing up new-car sales.

The full significance of this price spread can be seen in the prices of the Ford V-8. In 1937, the one-year-old Ford was worth $421 (63 per cent of its original value) while, in 1938, the one-year-old Ford was worth $399 (56 per cent of its original value). In 1937, an owner of a 1936 Ford could expect to purchase a new Ford for his used car plus $291; in 1938, an owner of a 1937 Ford might be expected to pay $355 besides his trade-in. The combination of a $42 rise in the new-car price and a $22 decline in the value of a one-year-old Ford in 1938 as

[4] It must be remembered that all price comparisons are based on the standard 4-door sedan—the most popular model made.

compared with a one-year-old Ford in 1937 created a severe handicap. With the decreased purchasing power in the hands of consumers in 1938, this $64 increase in the price differential could not help but have a serious effect upon sales. This condition was not unique for Ford, but was characteristic for all makes of cars.

The increased differentials between the trade-in values of used cars and the new-car prices cannot be ignored as a reason for new-car sales dropping, in 1938, to 1,839,285, or approximately 50 per cent below the 1937 sales of 3,658,525.[5]

The Effect of Used-Car Prices on the Automobile Dealer

Automobile dealers have complained at various times that they buy their new cars in a closed market and sell them in an open market. Generally representing one manufacturer and, frequently, but one make of car, the dealers must buy their new cars from one source at the fixed price designated by the manufacturers.

Automobile manufacturers are geared to mass production and have established sales quotas for dealers; by direct or indirect methods they frequently have forced dealers to meet these quotas under threat of the loss of their franchises.

In poor business years, fewer new-car prospects appear, and the ranks of those are thinned when informed that the trade-in values of their cars are low. Pressed by the manufacturer for sales and by the consumer's unwillingness to trade—which really means sell to the dealer—at a reasonable price, the dealer makes sales without profit, and, frequently, at a loss.

The effect and importance of used-car prices on the inventory carried by the dealer and its effect on his operations will be discussed in the chapter dealing with used-car inventories of dealers.

The Effect of Used-Car Prices on the Finance Company

In the chapters on the demand for used cars and on the financing of used cars, the importance and the extent of repossessions are discussed, and it is shown that repossessions reached a new high in 1938.

The experience of time-sales finance companies with consumer credit during the depression years, which demonstrated the soundness of this form of credit when supported by chattel mortgages or liens on automobiles, induced many sales finance companies, in the subsequent years, to grant instalment credit with little or no down payment.

The recession of 1938 resulted in numerous repossessions, attribut-

[5] *See* Chapter II, Table 2.

able largely to the loss of consumer income, but traceable, also, to the violation of sound credit practices. The rapid decline in used-car prices in the early months of 1938 resulted in many buyers owing an amount in excess of the current market price of the car they were driving. Having either no equity or a minus equity, the incentive to pay for the car was largely destroyed, and repossessions naturally increased.

Larger down payments and shorter terms, insuring an equity interest to the consumer at all times, have been the answer to this problem, and it is believed that sales finance companies will follow this practice, at least until the unhappy experience of 1938 is forgotten.

The Effect of Used-Car Prices on the Consumer

Automobile consumers readily fall into two classifications—new- and used-car buyers. Both groups have an interest in used-car prices, but, generally, their interests are of a divergent character. The new-car buyer is interested in used-car prices inasmuch as these prices determine, to a considerable extent, the allowance he can expect to receive for his car in trade. The used-car buyer is interested in used-car prices, for, the lower the price, the more he can obtain for his money.

The effect of the decline in used-car retail prices upon trade-in values was developed in considering the effect of used-car prices on the manufacturer, which also illustrated how the consumer's equity had declined and his purchasing power reduced.

Frequently, one hears the following questions raised: (1) What does it cost to own and operate an automobile? (2) After what period of time is it advisable to trade in an automobile? An answer to the first question involves two sets of factors: (1) the depreciation of a car; and (2) the operating and maintenance costs.

No attempt will be made to analyze operating and maintenance costs in this study, for these will naturally differ widely, due to the size and weight of car, character of its use, type of roads traversed, licenses, taxes, and many other elements. Such a cost analysis is beyond the scope of this study.

The depreciation of automobiles could be studied from the point of view of the cost to the consumer if he used the car to the end of its mechanical life. This, however, would be contrary to the consumer's usual practice, for car owners generally expect to replace their present automobiles and to use the cars as partial payments on new purchases. Consequently, the cash value of an automobile is generally of no interest to consumers, but the trade-in value is the important consideration.

The difference between the trade-in value and the new-car price, however, represents more than depreciation caused by use. For instance, the replacement of a $750 car purchased new in 1932 by a 1938 new car costing $750 would involve not only the replacement of a car, but also some added utility to the consumer in the form of mechanical improvements, accessories and style.

Without taking into account the improvements which are embodied in later models, or a possible increase in the price at which a new car can be bought to replace the model traded in, an estimate can be made of the annual cost borne by the consumer if he trades in his car after one year of use, two years of use, etc., up to five years of use, for a new car of the same make in the same price classification.

To illustrate the approximate annual cost to a consumer, a schedule is presented for five different makes of cars based on new-car prices, delivered in Cleveland, for 1937 and for 1938. It will be remembered that both new- and used-car prices varied between 1937 and 1938. For this reason, estimates for depreciation borne by the consumer, if the new car was purchased in either 1937 or 1938, are shown in Table 14. The new-car prices are assumed to replace the models traded in; from the new-car prices the estimated trade-in values are deducted for cars which are one, two, three, four, and five years of age, the residual being the balance due in cash. This cash balance is then divided by the years of usage of the car traded in,[6] to obtain an estimate of the average annual cost of ownership to the consumer.

From these figures it can be seen that the year in which a car is traded in makes a considerable difference to the consumer. A new car could be purchased much more advantageously in 1937 than in 1938.

The data on Chevrolet trade-in values seem to belie this statement, for the difference between a one-year-old Chevrolet in 1938 and in 1937 appears to be only $11. For the complete story, the examination must be carried further. A new 1936 Chevrolet sold for $670 while the new 1937 Chevrolet sold for $758, or for $88 more. In 1937, the one-year-old 1936 Chevrolet was worth $422 or 63 per cent of its original price, while the 1937 Chevrolet sold for $409 in 1938, or 54 per cent of its original price. According to this estimate, it cost the Chevrolet owner who traded in a 1937 Chevrolet in 1938 $88 more on his original purchase and he received $13 less on his trade-in, this being offset in part by a $7 reduction in the new-car price in 1938.

The increase in the balance due between 1937 and 1938 for Ford, Plymouth, and Dodge shows the effect on the cost to the consumer of

[6] Mileage on cars traded in is assumed to be average.

TABLE 14—ESTIMATED ANNUAL COST OF CAR OWNERSHIP TO THE CONSUMER FOR SELECTED MAKES, BASED UPON NEW-CAR PRICES DELIVERED IN CLEVELAND, OHIO, IN 1937 AND 1938

(Source: *See* Table 10 for description of source)

Age of Car (Years)	Model Year	Trade-in Value 1938[a]	Balance Due on New Car	Average Annual Cost of Ownership	Model Year	Trade-in Value 1938[a]	Balance Due on New Car	Average Annual Cost of Ownership
				CHEVROLET				
	1937 New-Car Price—$758				1938 New-Car Price—$751			
		Dollars	*Dollars*	*Dollars*		*Dollars*	*Dollars*	*Dollars*
1....	1936	420	338	338	1937	409	342	342
2....	1935	325	433	217	1936	314	437	219
3....	1934	254	504	168	1935	234	517	172
4....	1933	245	513	128	1934	174	577	144
5....	1932	180	578	116	1933	154	597	119
				FORD				
	1937 New-Car Price—$712				1938 New-Car Price—$754			
1....	1936	420	292	292	1937	400	354	354
2....	1935	329	383	192	1936	305	449	225
3....	1934	265	447	149	1935	229	525	175
4....	1933	214	498	125	1934	160	594	149
5....	1932	165	547	109	1933	128	626	125
				PLYMOUTH				
	1937 New-Car Price—$682				1938 New-Car Price—$747			
1....	1936	425	257	257	1937	409	338	338
2....	1935	360	322	161	1936	314	433	217
3....	1934	285	397	132	1935	248	499	166
4....	1933	214	468	117	1934	185	562	141
5....	1932	142	540	108	1933	132	615	123
				DODGE				
	1937 New-Car Price—$840				1938 New-Car Price—$923			
1....	1936	545	295	295	1937	520	403	403
2....	1935	440	400	200	1936	409	514	257
3....	1934	345	495	165	1935	314	609	203
4....	1933	254	586	147	1934	225	698	175
5....	1932	194	646	129	1933	160	763	153
				BUICK				
	1937 New-Car Price—$1,050				1938 New-Car Price—$1,077			
1....	1936	609	441	441	1937	625	452	452
2....	1935	460	590	295	1936	474	603	302
3....	1934	389	661	220	1935	329	748	249
4....	1933	300	750	188	1934	269	808	202
5....	1932	220	830	166	1933	194	883	177

[a] The trade-in values in this table were calculated by the use of percentages to two decimal places. Consequently, small differences will appear if the rounded percentages as shown in Table 10 are used.

the decline in used-car prices and the rise in new-car prices.

The growing popularity of the Buick, Series 40, in the new- and used-car market is reflected in the increasing new-car sales volume and the retail-sales prices of used Buicks. Unlike most makes of cars, the new-car price of the Buick, Series 40, has been relatively constant in the past five years, and, within the past four years, the range has not exceeded $50.

In 1937, the one-year-old Buick, Series 40, sold for 58 per cent of its original price; in 1938, when used-car prices dropped decidedly, the one-year-old Buick 40 sold for 60 per cent of its original price, a relatively better price, in defiance of a downward trend in the used-car market. This indicates the extent of the outstanding acceptance by consumers of the 1937 Buick.

The question "After what period of time is it advisable to trade in an automobile?" cannot be answered specifically. A general guide as to the best time for trading in a car can be formulated from answers to the following questions: Are new-car prices in harmony with the current business trend, and are used-car prices below or above the normal used-car price?

In answering these questions for an individual, several facts must be kept in mind. The heavy depreciation of 40 per cent or more for a car in its first year reflects not only used-up mileage, but also loss in style value. The percentage decline from the new-car price remains constant each year for the next three years, and then declines still less in the fourth year.[7]

The estimated car life is 8.58 years, and the average annual mileage is 10,000 miles. On this basis, the average car can be driven approximately 85,000 miles. The individual who travels 30,000 miles or more the first year would find it advantageous to trade annually; others, traveling less but abusing a car through lack of attention, would find it advisable, also, to trade after the first year.

For the motorist who travels the average 10,000 miles a year and gives reasonable care to his automobile, it would depend entirely upon him as to when he deemed it best to trade. If he demanded only transportation, it would pay him to drive his car to the end of its mechanical life. But the economic class of consumers who are capable of buying a new car desires something more than transportation, and, since that is the criterion, each individual must decide for himself when he feels that the differential he is called upon to pay for a new car is justifiable.

[7] *See* Appendix A for amounts of depreciation suffered by individual makes of cars between 1932 and 1938.

CHAPTER VI

INSTITUTIONS HANDLING USED AUTOMOBILES

There are two classes of dealers handling used cars: the new-car dealers and the exclusive used-car dealers. Prior to 1907, as pointed out in Chapter I, the new-car dealers had maintained their occupation as dealers in new cars only, and, generally, had refused to accept used cars as trade-ins. The few used-car dealers of this period purchased cars from private owners who sought to liquidate their investments in order to buy new cars. Since 1907, new-car dealers have been unable to impose the barrier of "no trade-ins accepted" in the sale of new cars.

Since 1920, new-car dealers have been made conscious of the fact that they are inescapably in the used-car business, and, during the thirties, the number of used cars sold by new-car dealers has represented two-thirds of their unit sales and approximately one-third of their dollar volume of sales. Even so, the new-car dealers generally view their used-car inventories as a by-product—and an undesirable one—while to the used-car dealers, they are the only stock.

In order to describe the similarities and differences between the new-car dealers and the exclusive used-car dealers, and their relative strength and effectiveness in the used-car market, the two classes of dealers may be examined from five different aspects of business life. Consideration will be given to: (1) the number of new- and used-car dealers (quantitative analysis), (2) the financial strength of retail outlets (qualitative analysis), (3) the ownership of automobile retail outlets, (4) estimated distribution of used-car sales by new- and used-car dealers, and (5) business life or permanence of retail automobile dealers.

Number of Dealers

The number of dealers in operation at any one time is most difficult to ascertain; statistics available from several reliable sources vary considerably. The various estimates and counts are assembled in Table 15.

These wide differences in the various estimates of the number of automobile dealers are difficult to explain. In all probability, the figures quoted by the Census of Business and by *Automotive Industries* did not include many of the so-called "RFD" dealers who are located in

centers of 30 to 100 families, and also did not count the owners of small garages who act as subdealers in metropolitan areas, both types of dealers making occasional sales only. The Census of Business does not include automobile dealers with farm implements and machinery or wholesaler-retailers of automobiles and other motor vehicles unless 50 per cent or more of their sales are of cars at retail.

TABLE 15—PUBLISHED COUNTS OF NEW- AND USED-CAR DEALERS IN THE UNITED STATES, BY SOURCES

Source	Date	New-Car Dealers	Exclusive Used-Car Dealers	All Dealers
Automobile Facts and Figures[a]	Mar., 1939	.....	.....	39,782
Automotive Industries[b]	Jan., 1940	39,258	.....	.....
W. S. Ponton, Inc.[c]	Jan., 1940	48,217	4,491	52,708
U. S. Census of Business[d]	1939	33,605	6,980	40,585

[a] Automobile Manufacturers Association, *Year Book*, 1939, p. 66, quoting from Chilton Company, Philadelphia, Pa.

[b] *Automotive Industries*, LXXX (1940), March 1, 190.

[c] *List O'Trades*, released by W. S. Ponton, Inc., 635 Sixth Avenue, New York, January, 1940, based on data collected by Dun and Bradstreet.

[d] United States Census of Business, U. S. Retail Trade, Preliminary Summary, 1939, p. 5.

FINANCIAL STRENGTH OF RETAIL OUTLETS

The *List O'Trades* also shows the following classification of *new-car* dealers according to their financial ratings.[1]

Dealer Rating		*Number*
Less than $1,000		22,919
$1,000 or more		25,298
$5,000 or more	14,250	
$10,000 or more	7,822	
Total (January, 1940)		48,217

From these figures it is discernible that, in 1940, about one-half of the new-car dealers (23,000) are listed as having less than $1,000 invested. An estimate made two years previously by Mr. A. N. Benson while serving as manager of the National Automobile Dealers Association indicated that there were between 4,000 and 4,500 dealers—approximately 10 per cent of the dealer body—who had investments in their businesses in excess of $20,000.[2]

Sales Volume by Outlets—There is a rule-of-thumb in the automobile industry that a dealer should have approximately $100 invested in

[1] W. S. Ponton, Inc., *List O'Trades* (New York, N. Y., 1940), based on data collected by Dun and Bradstreet.

his business for each $1,000 of annual new-car sales. If this rule is applied to the 23,000 dealers with ratings of $1,000 or less, these thousands of dealers can be said to sell individually less than 10 new cars annually. The broad classifications and the open-end class of $10,000 or more, quoted in the above tabulation, do not permit an estimate of the number of cars sold by dealers in each of the financial classes. However, the determination of the volume of business done by the several financial classes of dealers may be approached from another angle.

According to the United States Census of Business, there were 30,294 new-car dealers and 4,751 used-car dealers in 1935.[3] New- and used-car sales figures are not available separately for new- and used-car dealers, but the combined new- and used-car figures for all dealers show that 17,521 or 50.7 per cent of all dealers had less than $50,000 annual sales and accounted for 10.4 per cent of the 1935 dollar volume of sales, while 17,030 dealers or 49.3 per cent sold in excess of $50,000 and obtained 89.6 per cent of the dollar sales. These figures also indicate that 10,635 dealers or 30.8 per cent of the dealers obtained 76.9 per cent of all sales.

The 14,250 new-car dealers which Ponton, Incorporated, lists as having an equity of $5,000 or more represent approximately 30 per cent of the total new-car dealer body. It is reasonable to believe that the percentage of sales obtained by this group is comparable to that obtained by the top 30 per cent of the dealers reported by the Census in 1935, namely, three-fourths of all sales in terms of dollar volume.

Financial ratings of the 4,491 exclusive used-car dealers are not given.[4] Most of these dealers operate in the large cities, and some of them have considerable capital invested in inventory and equipment.

Ownership of Automobile Retail Outlets

The majority of automobile dealerships are owned by individuals and operated, at least in name, independently of the manufacturers. The dealer owns or leases his place of business, buys his cars on a C.O.D. basis from the manufacturer, and accepts the profit or loss from his own enterprise.

Frequently the dealership is referred to as an agency of the manufacturer, but it is not an agency in the legal sense. While nominally the dealer is an independent merchant, through his franchise agreement with the manufacturer, he is forced to purchase his cars from a desig-

[3] *See* Table 15, *supra*.
[4] W. S. Ponton, Inc., *loc. cit.*

nated source at the manufacturer's stipulated price, and to observe strictly various requirements imposed by the manufacturer.

In a few scattered instances over the country, dealers have expanded their efforts so that they have branches of their establishments in metropolitan areas or own several retail outlets in various trading centers, but sectional and national chains of automobile retail outlets have not been widely developed.

Factory Ownership—After the very first stages of automobile manufacturing, when cars were frequently manufactured to order, factories sent out salesmen to sell cars by demonstration methods. A few factory agencies were established in key cities and direct distribution was attempted. However, enterprising and resourceful individuals were found with relative ease to assume the risks of retailing, and the manufacturers discovered that individuals with their own capital invested were generally more successful than factory-operated agencies.

The years between 1905 and 1930 were characterized by private ownership of retailing and wholesaling outlets, except when manufacturers occasionally were compelled to operate their own outlets in order to have representation in certain markets. The depression years, beginning in 1929 for the automobile industry, forced changes in the policies of the manufacturers. The prosperous twenties followed by the depressed thirties not only resulted in numerous failures[5] of automobile manufacturers but also found the dealer organizations of the surviving manufacturers riddled, and many market areas were left without adequate representation or were represented by dealers whose working capital had been dissipated. The situation in the latter case was due, in part, to the automobile manufacturers who had encouraged dealers during the twenties to erect elaborate retailing establishments at their own expense, to reflect prestige upon the manufacturers. Many dealers have subsequently regarded these expensive structures as monuments to their folly. Reduced sales and curtailed profits brought many of these dealers into financial difficulties, and manufacturers frequently purchased interests in dealer establishments or financially supported key dealers in order to maintain adequate representation within an area.

As rapidly as possible, the automobile manufacturers, with the exception of the General Motors Corporation, have liquidated their holdings. By 1939, the Ford Motor Company had disposed of practically all of the dealer holdings it had acquired. Chrysler Corporation

[5] In 1921, there were 88 manufacturers of automobiles; by 1937 the number had been reduced to 11.

still owned or controlled only a few key distributors and retail outlets. General Motors is the only one of the "Big Three" which has sizeable financial interests in retail and distribution outlets.[6]

As early as 1929, the General Motors Corporation organized the General Motors Holding Company for the purpose of giving assistance to dealers in need of additional financial support and whom the corporation wished to maintain to insure adequate distribution of their cars. This company was dissolved in December, 1936, and since that time has been operated as a division of the parent corporation.

The premise upon which this organization was formed and the means whereby financial support for the dealer was achieved are, in effect, as follows:

PREMISE: That automobiles produced by General Motors Corporation can be most effectively retailed through independently operated dealerships which are owned by individuals who receive the profits of the enterprise and who are established members of the community.

PURPOSE: To provide supplemental financial support to dealers whose restricted financial resources do not permit them to qualify for a General Motors dealership—with provisions by which dealers can achieve independent ownership.

PRACTICE: To qualify for assistance from General Motors Holding Company (or Division) a dealer must have: (1) A satisfactory investment, and the dealership must have an encouraging sales and profit potential; (2) a General Motors franchise, and demonstrated sales and management ability; and (3) must practice sound merchandising policies and follow the business management policies set forth by the General Motors Holding Company.

The provisions for acquiring or re-acquiring ownership of the dealership by the dealer are: (1) When the dealer-operator owns less than 51 per cent of the outstanding stock of the dealership, he may purchase the shares held by General Motors Holding Company only with funds received as dividends or bonuses from the dealership; (2) after the dealer owns 51 per cent of the stock, he may purchase the shares held by General Motors Holding Company from any funds irrespective of the source from which they are derived.[7]

[6] Mr. Edward Payton, national consultant in sales and management for automobile dealers, Cleveland, Ohio, in conversation with the writer.

[7] Digested by the writer from a copy of the agreement between General Motors Holding Corporation and the dealer.

In the period 1929-1937, the General Motors Holding Company (or Division) acquired 428 dealerships. During the same period it disposed of 92 dealerships, and, as of December 31, 1937, held investments in 336 retail dealerships. Table 16 presents the record for each year of the 1929-1937 period.

Of the 92 dealerships disposed of between 1931 and 1937, 62 were liquidated and 30 were sold; but of those sold, only 11 were purchased by the original owners.[8] This would seem to indicate that the plan may have been of material assistance to General Motors in maintaining retail distribution but apparently was of little help to the individual dealer

TABLE 16—NUMBER OF DEALERSHIPS ACQUIRED, DISPOSED OF, AND FINANCIALLY SUPPORTED BY GENERAL MOTORS HOLDING COMPANY, ANNUALLY 1929-1937

(Source: Federal Trade Commission, *Report on Motor Vehicle Industry*, Washington, D. C., 1939, p. 437)

Year	Number of Dealerships			
	At Beginning of Year	Acquired During Year	Disposed of During Year	At End of Year
1929	0	12	0	12
1930	12	57	0	69
1931	69	30	4	95
1932	95	18	29	84
1933	84	43	26	101
1934	101	38	14	125
1935	125	33	15	143
1936	143	143	1	285
1937	285	54	3	336
Total, 1929 to December 12, 1937		428	92	336

who believed that through the corporation's financial assistance he could either gain or regain an owner's control of the dealership.

Various reasons may be given for the failure of dealers to acquire control. Profit opportunities since 1930 have been limited by the reduced volume of new-car sales and the increasing ratio of used cars to be handled. These dealers also claim that their dealerships which have been financed and indirectly controlled by the manufacturer have been operated on a basis of getting the maximum number of new-car sales for General Motors, regardless of the retail profit in these sales. Independent dealers assert that factory-controlled dealerships grant the most generous trade-in allowances and are the worst price cutters

[8] Federal Trade Commission, *Report on Motor Vehicle Industry* (Washington, D. C., 1939), p. 437.

among dealers. These dealers believe that the manufacturer willingly gives away the retail profit to secure new-car sales volume and is content to receive only the profit derived from manufacturing and wholesaling of cars.

The 336 dealerships which were controlled in 1937 by General Motors Holding Division represented slightly less than 2 per cent of the total General Motors dealers in that year.[9] These 336 company-controlled dealerships accounted for 126,831 new-car sales, or 9 per cent of the General Motors 1937 total of 1,421,306 new-car sales. Sales by these controlled dealerships accounted for 5.5 per cent of General Motors' new-car sales in 1935, and for 7.2 per cent in 1936.[10] The increasing difficulties in securing new-dealer capital for the retail distribution may cause a further development of the trend towards manufacturers' financial control of their retail outlets.[11]

Ownership by Finance Companies—In recent years, finance companies have found themselves so intimately involved in some of their new-car-dealer operations because of the wholesale financing of the dealers' inventories that they have taken over dealerships and, if not openly, have secretly operated them. Many former dealers are actually serving as managers of the agencies, getting their orders directly from the finance companies. The willingness of the finance companies to become involved in the retail dealerships probably is caused by their desire to control the direction of the retail finance paper and to benefit by the profits to be derived from such paper.[12] It is to be regretted that more specific information relative to this phase of the subject is not available.

Ownership of Used-Car Outlets—Used-car retail-sales outlets are owned (1) by individuals operating exclusively as used-car dealers, (2) by finance companies as outlets for repossessed cars or as a means

[9] This figure includes 180 distributors which are also retail outlets but does not include 3,504 associate dealers. Associate dealers and subdealers are terms used interchangeably. They are created by a distributor or a dealer through a contract which, in turn, must be approved by the factory.

[10] Federal Trade Commission Report, *op. cit.*, p. 438, and *Automotive News, 1939 Almanac* issue (Detroit, Michigan), pp. 15, 17, and 21.

The names of the dealerships which are controlled by the manufacturer are not available and no positive statement can be made as to the reasons for their securing sales out of proportion to their number. Two factors, however, may explain this situation: the large trade-in allowances, and the fact that dealers supported by the manufacturer are, in many cases, large and important.

[11] In conversation with the writer, sales executives of manufacturers, finance company officers, and representatives of the National Automobile Dealers Association have all attested to the fact that it is difficult to enlist new capital in automobile retailing.

[12] *See* Chapters XI and XII on the financing of used automobiles.

of creating and controlling additional retail-sales paper, or (3) as subsidiaries to new-car dealers. Occasionally, when a connection exists with a new-car agency this fact is not publicized, the outlet being used to unload undesirable merchandise. This anonymity protects the new-car dealer's principal establishment from any possible ill will.

Distribution of Used-Car Sales by New- and Used-Car Dealers

Since the total sales of used cars is only an estimate, the per cent of used cars sold by new- and used-car dealers, respectively, must be estimated.

If it could be assumed that each used-car dealer sold the same number of used cars as each new-car dealer, on the average, used-car dealers made 8.5 per cent of the used-car sales by dealers, according to the Ponton Company's figures, and 13.6 per cent, using the Census of Business figures. Since used-car dealers, for the most part, operate in centers with large populations and purchase most of their stocks from new-car dealers in these areas, it is reasonable to believe that nationally the used-car dealers sell more than 10 per cent of the used cars sold at retail. How much more is open to conjecture, but probably their share of business ranges somewhere between 10 per cent and 15 per cent. An analysis of a sample of 529 purchases of used cars by residents of the Cleveland area indicates that approximately 81 per cent of the used cars sold to consumers during the first half of 1938 were purchased from new-car dealers, 17 per cent from used-car dealers, and 2 per cent were repossessions purchased by consumers directly from finance companies.[18]

Tenure of Dealers

In 1929, there were 158 new-car dealers and 31 used-car dealers operating in Greater Cleveland; by 1938, there were 139 new-car dealers and 89 used-car dealers, as shown in Table 17.

The increase in the number of used-car dealers can be explained by several factors:

1. The constantly rising ratio of used cars to new cars.
2. The heavy mortality of new-car dealers whose used-car inventories could be purchased at advantageous prices. Used-car auctions held for the benefit of dealers are not infrequent.
3. The tendency in recent years for the well-established and reputable new-car dealers to protect their business names by selling low-priced and badly abused used cars to exclusive used-car deal-

to the consumer. Or the new-car dealers may do so because the locations of their establishments in superior residential areas offer poor used-car markets.

4. Depressed business conditions have forced many consumers to liquidate their ownership in cars and have turned many customary new-car buyers into the used-car market.
5. The availability of large storerooms at low rentals and of vacant lots on main thoroughfares.
6. The practice of finance companies in accepting automobile retail-sales finance paper without recourse, resulting in the opening of used-car outlets by the finance companies. These are separately incorporated as subsidiaries of the finance companies.

The character of retail establishments and their methods of doing business are largely founded upon financial strength and length of experience in the business. Many of the evils in automobile retailing may be directly traceable to the lack of stability in the body of dealers. The National Automobile Dealers Association has publicly implied that it can obtain support from the well-established dealers for the promotion of measures relating to the welfare of dealers but that the many newcomers into the ranks of dealers are detrimental to unified action. The National Automobile Dealers Association and state and local automobile dealers' associations have decried the tendency of manufacturers to appoint new dealers of limited financial resources with inadequate service facilities, irrespective of market potentials. Such appointments lead to undesirable and unwarranted competitive conditions.[14]

With these factors in mind, a study was made of the tenure of automobile dealers in Greater Cleveland, to determine their average annual turnover in the business and, if possible, to compare their tenure with that of other retail establishments.

The year-to-year changes in the number of new-car dealers and of used-car dealers are shown in Table 17. The table shows the number of dealers listed each year in the Cleveland City Directory. The number departing each year was obtained by comparing the list of a given year with the names in the list for the next year. This procedure was followed for each year between 1929 and 1938.[15]

In Cleveland, the average annual per cent of withdrawals by new-

[14] The Manager of the Pennsylvania Automotive Association, in conversation with the writer at Harrisburg, August 9, 1938, laid particular stress on this malpractice. He described the appointment of a dealer with less than $200 in capital who had just been established near Harrisburg.

[15] A Directory was not issued for 1933. *See* Note, Table 17.

car dealers, for the period 1929-1938, was 29.1 per cent. In a study of the departure of new-car dealers, made in Buffalo in 1933, it was found that an average of 22.3 per cent of the dealers withdrew annually from

TABLE 17—ANNUAL DEPARTURES AND ENTRANCES OF AUTOMOBILE DEALERS IN BUSINESS IN GREATER CLEVELAND, 1929-1938

(Source: Cleveland City Directories for all years but 1933, when a Directory was not published)

Year	Number of Dealers			Per Cent Not in Business at End of Year (Col 3 ÷ Col. 1)
	In Operation (1)	Entering Business (2)	Not in Business in Subsequent Year (3)	(4)
NEW-CAR DEALERS				
	Number	*Number*	*Number*	*Per Cent*
1929	158	96	43	27.2
1930	211	39	67	31.8
1931	183	34	54	29.5
1932	163	70	56	34.4
1933[a]	177	15	55	31.1
1934	137	42	35	25.5
1935	144	35	43	29.9
1936	136	43	27	19.9
1937	152	37	50	32.9
1938	139			
(Av. 1929-1938)				29.1
USED-CAR DEALERS				
1929	31	33	19	61.3
1930	45	20	31	68.9
1931	34	22	17	50.0
1932	39	—	—	—
1933[a]				
1934	60	43	27	45.0
1935	76	37	39	51.3
1936	74	30	28	37.8
1937	76	49	36	47.4
1938	89			
(Av. 1929-1938)				51.7

[a] The Cleveland Telephone Directory was used to obtain the number of new-car dealers in 1933; used-car dealers were not included because a number of used-car dealers operate without a listed telephone.

automobile retailing in the period from 1920 to 1930.[16] The national average is estimated currently at 25 per cent.[17] Failures and withdrawals, however, always have been more numerous in metropolitan areas than in other areas. It is believed that the higher rate in Cleveland can be explained in this light.

[16] Harold A. Baker, *Marketing of Automobiles, A Study in Retail Distribution in Buffalo,* an unpublished Master's Thesis (University of Buffalo, Buffalo, N. Y.), June, 1933, p. 23.

[17] Edward Payton, national consultant in sales and management for automobile dealers, Cleveland, in conversation with the writer, January 5, 1940.

In 1932, 56 Cleveland dealers in new cars, or 34.4 per cent, withdrew; this represented the highest percentage of departures for the decade under consideration. It is interesting to note that, with the exception of 1936, when there were only 27 departures (19.9 per cent), withdrawals ranged between 25.5 per cent and 34.4 per cent for the ten-year period, indicating that the percentage of dealer withdrawals annually has not varied greatly.

Automobile dealers may dispose of their interests in their businesses for various reasons: inability to operate profitably; failure to comply with requirements enforced by manufacturers as to methods of operation; desire to locate elsewhere; or any one of a number of other reasons. Among the dealers whose names are on the list of departures during a year's time, there may be some who consolidated or changed the name of their business establishments. Such changes cannot be described as dealer mortalities. An attempt was made to determine whether the withdrawals shown in Table 17 were caused by business failures, transfers of ownership, consolidations, changes in corporate name, or other reasons. The difficulties encountered were of such a nature that this investigation was abandoned. From ten interviews obtained with dealers, selected at random, who had departed from business during 1937, and from the impression secured in conversation with dealers continuing in business, the majority of annual dealer departures are traceable to unprofitable operations due to various causes, but, primarily, to financial difficulties. When interviewed, the ten new-car dealers who had withdrawn from business gave reasons which could be summarized as follows:

Number	*Reason for Withdrawing*
4	Lack of profit opportunities
3	Financial difficulties
1	Lack of sufficient capital
1	Ill health
1	Unfortunate partnership arrangement

That financial failure which resulted in creditor losses was not one of the primary causes, however, is revealed in a report from the Cleveland office of Dun and Bradstreet, which listed the number of such financial failures of dealers in Cleveland as follows:

Year	*Number of Failures*
1934	5
1935	7
1936	3
1937	2
1938	7

This seems to indicate that, at least officially, creditors of automobile dealers did not suffer heavily in comparison with the number of dealer withdrawals.

While it is interesting to determine the number of annual departures from automobile retailing ranks, it is of greater significance to determine the length of the business life of automobile dealers.

An analysis was made of the length of time 448 different new-car dealerships and 268 used-car dealerships, listed in the Cleveland City Directories in the period from 1929-1938, had operated under the same firm name. From Table 18 an idea of the permanence of new-car dealers in the Cleveland area can be obtained.

TABLE 18—LENGTH OF LIFE OF NEW-CAR AND USED-CAR DEALERSHIPS OPERATING IN GREATER CLEVELAND BETWEEN 1929 AND 1938

(Source: *See* Table 17 for description of sources of data)

Length of Life (Years)	Number of New-Car Dealers	Number of Used-Car Dealers
1	146	164
2	88	51
3	54	17
4	43	18
5	36	5
6	17	2
7	8	6
8	17	1
9	7	0
10 or more	32	4
Total	448	268

During this ten-year period, approximately one out of every three new-car dealers failed to survive more than one year; one out of every two dealers survived the second year in business. Only 32, or 20 per cent, of the 158 new-car dealers operating in 1929 were still in business in 1938.

A mortality study made in 1939 by the Automobile Manufacturers Association, based on the total of 39,000 dealers, stated that 28 per cent had survived 10 years or more.[18] A study made by the National Automobile Dealers Association in 1939 in 61 cities in 25 states—primarily small- and medium-sized cities—indicated that 448 dealers or 36 per cent of 1,254 dealers had survived 10 years or more.[19]

From these findings it appears that tenure of new-car retailers does not seem to differ from other retail establishments. Whether a com-

[18] *Automobile Facts,* June, 1939, p. 2.
[19] Survey published June, 1939.

parison with other retail lines, such as grocery, dry goods, hardware, and drug dealers, is fair is open to question. Automobile dealers challenge this comparison; they maintain that the larger investment and the higher intelligence required in automobile retailing distinguishes the field from these other forms of retailing. Dealers also believe that failures in their ranks are not entirely caused by poor internal management and depressed business conditions, but that they are somewhat attributable to the malpractices of the manufacturers—forcing sales up to quotas and up to a required percentage in a price classification, and establishing multiple dealerships regardless of the market potential.

An analysis of the life tenure of the used-car dealers shows that 164 of 268 or 61 per cent withdrew from business after one year of operation; at the end of the ten-year period only 4, or 13 per cent of the 31 used-car dealers in operation in 1929, were still engaged in the same business.

These figures, however, must not be considered too seriously, for the character of the business frequently causes operators to move from lot to lot or room to room and to change the names of their businesses almost as often as the seasons. With a business temporarily installed in an open lot, with no facilities for service, and with a capital investment limited to a movable shanty and a string of electric lights, shifts of cars and ownership may take place overnight.

In fairness, it must be said that some used-car dealers have established public confidence and faith, and are a credit to the business. It is from these that Mr. Paul Hoffman, President of Studebaker Corporation, believes that many of the new-car dealers of tomorrow will rise, having learned how to merchandise used cars successfully—the problem which seems to be the most vexatious to new-car dealers.[20]

[20] H. Hastings, "No Used Car Problem," *Automotive Industries,* LXXIV (1936), February 1, 137.

CHAPTER VII

THE BUYING OF USED CARS BY AUTOMOBILE DEALERS

Differences in Methods of New- and Used-Car Dealers, Losses Sustained by Dealers in Their Buying of Used Cars, and Cooperative Plans for the Control of Used-Car Allowances

As used-car dealers acquire their inventories of used cars in a manner different from that of new-car dealers, the methods employed by each will be discussed separately.

Used-Car Purchases by New-Car Dealers

The new-car dealer generally acquires his used-car stock in the form of used cars traded in on the purchases of new cars. To all intents and purposes, cars accepted in trade are purchases of merchandise that must be resold, the primary distinction being that the used car is accepted in lieu of cash towards the purchase of a new car or a used car of higher classification. These trade-ins usually represent from 40 per cent to 65 per cent of the new-car sales price. This means that the transaction not only fails to make available immediately any of the dealer's profit, but transfers anywhere from 10 per cent to 35 per cent of the dealer's new-car capital to his used-car stock as well.

To determine to what extent this situation is similar to that in other lines of retailing where trade-ins are accepted, a survey of the specialty field, including home electrical appliances, office equipment, and specialized factory equipment, was made in Cleveland in the spring of 1939. The findings indicated that the gross margin for the retail dealers handling these various lines generally exceeded 25 per cent, and that it was only in very exceptional instances that the value of the trade-in ever exceeded the gross margin allowed to the dealer on new stock. Thus, in these fields, practically every sale at least liquidated the capital investment of the dealer.[1]

That this difference exists probably can be traced to the fact that used cars have acceptance in a wider and more highly competitive market.

[1] Products investigated: radios, sewing machines, refrigerators, typewriters, duplicating machines, and printing equipment.

The practice of most new-car dealers has been to allow the new-car purchaser an overallowance for his trade-in, at times offering the full resale value of his present car on a new-car purchase, and, in some instances, even exceeding this figure.

The overallowances granted on used cars can be traced to various causes which in turn can be grouped into two major classifications: (1) external factors, i.e., causes beyond the immediate control of the dealer, and (2) poor business practices of the dealer.

Under the first classification—causes beyond the immediate control of dealers—the following causes for overallowances may be listed:

1. The automobile manufacturer's enforcement of the policy that new-car discounts are sufficiently large to warrant overallowances.
2. The automobile manufacturer's coercion of dealer to meet a prescribed sales quota, or to maintain a specified percentage of the business done in a certain price classification in the market area.
3. The automobile manufacturer's policy of establishing multiple outlets in a given market area regardless of the market potential, thus forcing dealers to compete not only with dealers of other makes of cars, but also with other dealers selling the same make.
4. Competition from poorly-managed dealerships where costs are not known, resulting in wild trading practices and causing losses to all local dealers.

Under causes attributable to poor business practices by dealers, the following can be listed:

1. The development of a skeptical attitude on the part of consumers because of careless appraisal methods employed by dealers.
2. The almost universal practice of granting overallowances for cars traded in, resulting from:
   a. The unjustified optimism on the part of dealers that used cars purchased at exaggerated values can be liquidated without losses.
   b. The misinterpreting of salesmanship to the extent that efforts are not made to *sell* new cars but to buy new-car business with excessive allowances on used cars.
3. Failure of dealers to ascertain and to be governed by the costs of operation.

External Factors in the Granting of Overallowances

New-Car Discounts—Manufacturers have given automobile dealers a margin of approximately 25 per cent on their new-car sales—a margin

that manufacturers believe ranges from 5 per cent to 15 per cent higher than it would need to be if all new-car sales were made without trade-ins. They contend that, through their advertising and sales promotion, mechanical improvements, and annual restyling, they have created a demand for their product, and that a 10 per cent to 15 per cent gross margin for the dealers should be adequate for the selling expenses on their cars.[2]

Many dealers, particularly those in metropolitan centers, deny the validity of the argument. They contend that this might be true if automobile manufacturers had not insisted that they build elaborate establishments, provide excellent service facilities, and maintain heavy inventories of parts, which greatly increases their costs, for the purpose of reflecting prestige upon the manufacturers. It is the dealers' belief that these capital structures and the adequate facilities for service should be regarded as part of the factories' expense, and if so, the margins needed to continue to operate profitably are greater than the manufacturers have been willing to admit.

Factory Forcing of Sales—Other significant factors in the granting of excessive allowances resulting in higher used-car buying prices are: (1) the factories' policies of enforcement of sales quotas, and (2) their insistence that dealers get a specified percentage of the total sales in their price classification within their local area. The survey of dealers made by the Federal Trade Commission revealed that nearly 90 per cent of the dealers felt that they were obliged to make allowances in excess of the amounts which they regarded as fair trade-in values on the cars taken in trade. Of these, 76 per cent attributed the cause to "competition," and 13 per cent enlarged their answers to mention, specifically, pressure from manufacturers.[3] Only 7 per cent of the dealers stated definitely that they were not obliged to give overallowances.

Multiple Dealerships in One Area—The manufacturers' policy of establishing multiple dealer outlets in seeming disregard of the market potential, and of granting franchises to individuals without adequate experience in automobile retailing and having only a few hundred

[2] If the assumption is correct that a margin of 15 per cent on new-car sales is adequate, a dealer selling a $1,000 car in which his present gross margin is 25 per cent, or $250, could offer a consumer $100 more on his trade-in than the current wholesale price of the used car would warrant. It is this situation which has prompted field representatives of manufacturers frequently to urge dealers to grant $50 to $75 more on cars they accept as trade-ins in order to increase the new-car sales volume.

[3] Federal Trade Commission, *Report on Motor Vehicle Industry* (Washington, D. C., 1939), p. 241. For General Motors dealers, 91.4 per cent and for Ford dealers, 85.9 per cent indicated that they were obliged to grant excessive allowances. The report does not indicate the number of dealers questioned.

dollars of capital, explains, in large measure, the excuse given by dealers for overallowances—competition. The exceedingly heavy mortality of automobile dealers can be traced primarily to this policy. Not only does the unfortunate dealer suffer by losing his capital, but, because his sales policies are generally of such a character that wild competitive trading results, losses are forced on all dealers in the community as well.

In defense of the manufacturers, it must be pointed out that the rapid expansion of the automobile industry in the twenties resulted in the creation of plant facilities capable of producing an estimated 8,000,000 cars annually.[4] During the thirties, the average new-car sales were between 2,000,000 and 3,000,000 cars per year. This situation created an intensely competitive condition among producers and prevented any one manufacturer from adopting a less rigorous sales policy.

Competition from Ill-Advised Dealers—The competition offered by dealers who lack an accurate knowledge of their financial operations has had repercussions upon the operations of the better-informed dealers. This competition would be neither extensive nor significant if only a few dealers lacked information on their costs. However, failure to be guided by reliable data is prevalent, and, consequently, all dealers suffer. The Federal Trade Commission, in its survey of the motor vehicle industry, examined the opinions of public accountants towards the manufacturers' prescribed dealer accounting systems to determine to what extent the systems installed and supervised by representatives of the factory reflect reliable information on costs. The answers received by the commission were interpreted to allow for a possible prejudice on the part of accountants who had been deprived of that lucrative business. In part, the findings were:

> Others [public accountants] in addition to pointing out that allocations of expenses under the factory system show profits per new car far too high, state that in order to show the true status of their business, dealers using factory-designed accounting systems must also keep another set of books, or at least supplementary records, especially if they are to be correctly informed as to the extent to which their capital and profits are tied up in used-car inventories that rapidly decline in market value with age.[5]

Internal Factors in the Granting of Overallowances

Careless Appraisal Methods—Admitting that competitive practices force automobile dealers to appraise and accept used cars in trade at

[4] D. M. Phelps, *Effect of the Foreign Market on the Growth and Stability of the American Automobile Industry* (Michigan Business Studies, No. 5, III[1931], The University of Michigan, Ann Arbor), p. 576.

[5] Federal Trade Commission, *op. cit.*, p. 293.

higher figures than the cars would bring on the cash market, the appraisal methods employed by many dealers are such that they not only create losses for the dealers, but fail to inspire consumer confidence as well.

A survey of appraisal methods made by the Chicago Automobile Trade Association in 1939 revealed the wide divergence in trade-in allowances and the inefficient procedure followed in appraising cars offered in trade. A shopper with a 1936 model to trade on a new car obtained allowances which were arrived at, after inspections by 55 different dealers, in the following manner:

Type of Inspection	*Number of Cases*
Inside at desk	1
Through window	3
At the curb	21
Motor started	9
Car driven	21
Total	55

A shopper offering a 1937 model in trade obtained trade-in allowances after the following inspections:[6]

Type of Inspection	*Number of Cases*
Inside at desk	0
Through the window	25
At the curb	5
Motor started	20
Car driven	4
Total	54

From these findings it is evident that the purchasing of used cars by many new-car dealers is done after careless and unsystematic evaluations. When dealers are seemingly indifferent to the mechanical condition of the car, the number of miles driven, and the costs necessary to place the car in condition for resale, the consumer can have little, if any, faith in the dealers' operating methods, and in their stocks of used cars. Moreover, the used-car departments of dealers are handicapped by unprofitable and slow-moving merchandise.

In some establishments where better business practices prevail, a used car is thoroughly checked and accurately appraised, with proper consideration given to the costs of reconditioning and resale, and any allowances granted above the appraisal value are charged to a reserve account for excessive trade-in allowances on new cars. When such

[6] Chicago Automobile Trade Association, *General Bulletin*, May 5, 1939, p. 2.

practices prevail, the used-car department can be operated as a separat department, and the effectiveness of its operations can be checke properly.[7]

Alert and progressive new-car dealers have sensed some of the fall cies in poor appraisal methods which result in sales volume withou profit, and in the acceptance of trade-ins without consideration of th inventory needs of their used-car departments. These dealers hav directed trading activities with an eye not only on their new-car sale but also on their used-car operations.[8]

Size of Overallowances[9]—The average consumer is aware that autc mobile dealers grant an allowance in excess of the used car's value whe the car is accepted in trade for a new car. How large this excessiv trade-in allowance is, and the percentage it constitutes of the new-ca dealer's gross margin, has a direct bearing on the dealer, the consume and the manufacturer.

There are several current reports on the extent of overallowance and subsequent losses to dealers. Among these is a shopping surve made for the National Automobile Dealers Association in the sprin of 1939 (by an impartial, nationally known market-research agency) to determine the size and extent of the overallowances granted b dealers.[10] Fourteen large cities were chosen, and more than 1,600 shop ping reports were secured on evaluations by new-car dealers represent ing 17 makes of cars.[11] In most of the cities, a 1936 Chevrolet Maste Deluxe, two-door, town sedan was used. In a few instances, when thi model was not available, a car was substituted which approximated th Chevrolet town sedan in popularity and value.

In order to obtain a comparison among cities, the N.A.D.A. *Guid Book* retail value of the car used in each community was taken as th average value, and the actual reconditioning cost was deducted there from to obtain the estimated trade-in value of each car used for shop ping purposes. No deduction was made to cover handling and sellin costs. If an additional 15 per cent had been subtracted to cover thes costs, the overallowances granted would have been much greater.

Only one call was made upon any dealer, so there was no oppor tunity to play one dealer's bid against that of another.

[7] Mr. Edward Payton, national consultant in sales and management for automobil dealers, Cleveland, Ohio, in conversation with the writer.

[8] *See* Chapter IX for a discussion of inventory control for used cars.

[9] The term "overallowance" is widely used by the automobile trade, and by th Federal Trade Commission in its *Report on Motor Vehicle Industry,* to describe excessiv trade-in allowances.

[10] Willmark Service and System.

[11] Cities shopped: Atlanta, Boston, Brooklyn, Chicago, Dallas, Denver, Detroit, Lo Angeles, Milwaukee, Newark, New York, Philadelphia, St. Louis, and Seattle.

Table 19 shows the extent to which the dealers of various makes tend to offer overallowances. The overallowance of Buick dealers for 13 cities was relatively the lowest, being approximately 4 per cent of factory delivered price; Ford dealers were next, with 4.2 per cent; while the two groups of dealers above 9 per cent were De Soto and Chrysler dealers. The average overallowance for all dealers was 6.42 per cent.

The analysis of overallowances by cities shows that Denver dealers were the most cautious, with an average allowance of $4 less than the estimated trade-in value. Atlanta dealers were next, with an average overallowance of $28 per car. For all cities, the average overallowance

TABLE 19—OVERALLOWANCES OFFERED ON TRADE-INS IN 1,529 NEW-CAR DEALS IN 13 CITIES, APRIL, 1939, BY MAKE OF CAR, BY MANUFACTURER GROUP, AND BY CITY

(Source: National Automobile Dealers Association, *Report of N.A.D.A. Shopping Survey, Conducted in Fourteen Metropolitan Areas During April, 1939* [Detroit, Mich., 1939].)

Make of New Car and Manufacturer Group	Number of Deals	Factory Delivered Price[a]	Average Over-allowance	Ratio of Overallowance to Factory Delivered Price
OVERALLOWANCES BY MAKES				
	Number	*Dollars*	*Dollars*	*Per Cent*
Buick	51	955	38	3.98
Chevrolet	171	720	60	8.33
Chrysler	87	1,010	92	9.11
De Soto	89	970	91	9.38
Dodge	83	855	58	6.78
Ford	177	738	31	4.20
Hudson 6	54	898	58	6.46
Hudson 112	34	806	38	4.71
La Salle	27	1,320	78	5.91
Mercury	168	953	47	4.93
Nash	41	1,020	88	8.63
Lafayette	50	920	66	7.17
Oldsmobile	73	952	80	8.40
Packard	51	1,095	67	6.12
Plymouth	261	805	43	5.34
Pontiac	74	871	78	8.96
Studebaker	38	951	74	7.78
Total	1,529			
Average		903	58	6.42
OVERALLOWANCES BY MANUFACTURER GROUPS				
Chrysler	519	878	61	6.94
Ford	346	830	40	4.82
General Motors	396	864	65	7.52
All Others	268	1,086	66	6.08
Total	1,529			
Average		903	58	6.42

TABLE 19—(*Continued*)

OVERALLOWANCES BY CITY

City Shopped	Number of Deals	Extent of Variations in Allowances	Average Over-allowance
	Number	*Dollars*	*Dollars*
Atlanta	56	171	28
Boston	149	250	51
Brooklyn	138	222	53
Chicago	215	175	48
Dallas	79	265	50
Denver	75	270	4[b]
Detroit	151	200	97
Los Angeles	146	235	84
Milwaukee	75	195	54
Newark	78	125	56
New York	138	207	82
Philadelphia	154	225	38
St. Louis[c]	114	165	95
Seattle	75	250	52
Total[c]	1,529		
Average			58

[a] Factory Delivered Price is the average of new cars shopped under each heading.
[b] Underallowance.
[c] St. Louis not included in total, because the survey in this city was not conducted concurrently with those in the other 13 cities, and the questions asked were not completely identical.

was $58. The cities in which conditions were the worst were: Detroit, St. Louis, Los Angeles, and New York.

By manufacturer groups, Ford dealers show an average of 4.82 per cent allowance for all cities, while General Motors and Chrysler dealers are above the average of 6.42 per cent.

Dealer Used-Car Losses—The Federal Trade Commission's report contained a profit and loss analysis of automobile dealers' used-car transactions for 1935, 1936, and 1937, the three most prosperous years for the industry in the decade 1930-1940. In 1935, costs of sales of used cars were 5.92 per cent above their net sales (Table 20); in 1936, 8.43 per cent above; and, in 1937, 8.54 per cent above.

Annually, the National Automobile Dealers Association, through a comprehensive questionnaire, obtains information on operations of its members.[12] Table 21 shows the extent of used-car losses suffered by new-car dealers for each of the years from 1933 through 1938, as determined from these reports.

The Federal Trade Commission report and the annual trade surveys of the National Automobile Dealers Association point to similar conclusions. Referring again to Table 20, if the amounts received for serv-

[12] Appendix B shows operating data for dealers for six years—1933-1938, inclusive.

TABLE 20—NET SALES, COST OF SALES, AND GROSS PROFITS, BY DEPARTMENTS, FOR MOTOR VEHICLE DEALERS IN 45 STATES AND THE DISTRICT OF COLUMBIA, 1935-1937

(Source: Federal Trade Commission, *Report on Motor Vehicle Industry* [Washington, D. C., 1939], p. 886.)

Year and Type of Sale	Number of Cars	Net Sales		Cost of Sales		Gross Profits	
		Amount	Per Cent of Total	Amount	Per Cent of Sales	Amount	Per Cent of Sales
		Dollars	*Per Cent*	*Dollars*	*Per Cent*	*Dollars*	*Per Cent*
1935							
New cars and trucks—retail......	79,841	65,084,795	60.03	51,427,763	79.02	13,657,032	20.98
Used cars	121,961	26,819,725	24.73	28,406,792	105.92	1,587,067[a]	5.92[a]
Service, parts, and accessories.....	......	16,521,001	15.24	10,297,227	62.33	6,223,774	37.67
Total.....................	201,802	108,425,521	100.00	90,131,782	83.13	18,293,739	16.87
1936							
New cars and trucks—retail.....	105,928	90,130,815	59.55	70,044,393	77.71	20,086,422	22.29
Used cars	173,740	39,473,984	26.08	42,799,710	108.43	3,325,726[a]	8.43[a]
Service, parts, and accessories.....	......	21,754,634	14.37	13,630,212	62.65	8,124,422	37.35
Total.....................	279,668	151,359,433	100.00	126,474,315	83.56	24,885,118	16.44
1937							
New cars and trucks—retail.....	116,349	98,918,308	57.28	75,948,360	76.78	22,969,948	23.22
Used cars	189,397	47,256,137	27.37	51,292,013	108.54	4,035,876[a]	8.54[a]
Service, parts, and accessories.....	......	26,509,387	15.35	16,581,842	62.55	9,927,545	37.45
Total.....................	305,746	172,683,832	100.00	143,822,215	83.29	28,861,617	16.71

[a] Loss.

ice, parts, and accessory sales are deducted from the total sales for the years, and corresponding profits thereon deducted from the gross profits, it is found that the dealers' gross profits on sales of *new* and *used* cars in 1935, 1936, and 1937 were 13.13 per cent, 12.93 per cent, and 12.95 per cent, respectively.

In 1938, the N.A.D.A. trade survey indicated that dealers made 20.15 per cent on their new-car sales after used-car losses had been deducted. Since new-car sales represented approximately two-thirds of the dealers' total dollar sales of both new and used cars, the dealers' profit of 20.15 per cent on new-car sales related to the total of new- and used-car sales is reduced to approximately two-thirds of 20.15 per cent, or 13.4 per cent of total *new-* and *used*-car sales.

The Federal Trade Commission findings indicate the profitableness of handling accessories, parts, and service facilities; the N.A.D.A. trade surveys[18] show that rebates from finance companies have been a substantial source of income to dealers. Both reports reveal the facts upon which dealers have based their claims that margins on new cars are too small to absorb losses on used cars and yield a sufficient profit on new- *and* used-car sales.

The solution to the dealers' problem of operating profitably might be attacked in two ways: (1) by increasing the dealers' gross margin on the new cars; (2) by effecting savings in present operations. The first method is not regarded by the majority of the dealers as the best solution. The manufacturers naturally feel that such a move would necessitate higher new-car prices, and would result in increased new-car sales resistance; the dealers, generally, feel that this would encourage proportionally greater trade-in allowances with no resultant gain.

Used-car Purchases by Used-car Dealers

The major sources of the supply of used cars in the hands of used-car dealers are new-car dealers, finance companies, and consumers who desire to liquidate their car ownership. Purchases from new-car dealers and from finance companies generally are made in wholesale lots, ranging from a few cars to the dealer's entire stock, which may number 50 cars or more. These cars are usually purchased at the current wholesale price which is approximately 35 per cent below the current retail price of the cars.

The care exercised by the better used-car dealers in buying their used-car stocks is illustrated by the findings of the Chicago Automobile

[18] *See* Appendix B.

TABLE 21—EFFECT OF AVERAGE USED-CAR LOSSES ON DEALERS' AVERAGE NEW-CAR GROSS MARGINS, 1933-1938

(Source: Columns 1, 2, 3, 4 and 5 taken from National Automobile Dealers Association annual trade surveys. *See* Appendix B.)

Year Model	New-Car Retail Sales Price (1)	Gross Margin as a Per Cent of New-Car Retail Price (2)	Gross Margin Per New Car Sold (3)	Per Cent of New-Car Gross Margin Lost on Used Cars (4)	Loss Per Used Car Sold Per New-Car Sold (5)	Gross Margin Per New Car After Loss Per Used Car (Col. 3 — Col. 5) (6)	Per Cent of Gross Margin Remaining After Used-Car Losses (Col. 2 — Col 4) (7)
	Dollars	*Per Cent*	*Dollars*	*Per Cent*	*Dollars*	*Dollars*	*Per Cent*
1933	792.72	24.44	193.77	3.43	27.18	166 59	21.01
1934	822.60	21.96	180.65	.82	6.78	173.87	21.14
1935	849.39	22.33	189.70	2.50	21.23	168.47	19.83
1936	853.74	23.37	199.52	4.02	34.37	165.15	19.35
1937	941.51	24.94	234.82	4.60	43.29	191.53	20.34
1938	1,006.10	24.65	247.99	4.50	45.27	202.72	20.15

Trade Association's shopping survey, conducted in Chicago in the fall of 1938. Five cars were offered to exclusive used-car dealers, and the following offers from different dealers were obtained:[14]

Car Number	*Offers (In Dollars)* 1	2	3	
1	210	210	200	...
2	125	135	135	...
3	225	250	250	...
4	310	310	325	...
5	200	225	240	250

Only in the fifth case did the variations exceed $25. These slight variations may have been due to a current need for this particular make and model by different dealers, or they may indicate differences in the skill of the dealers in reconditioning and merchandising their used cars. When dealers could not use the type of car which the shopper had, they did not hesitate to say so, and refused to make any sort of offer for the car.

Plans to Control Losses on Used Cars

Curbing of excessive used-car allowances has held the interest of various bodies of dealers since the innovation of accepting used cars in trade; consequently, for thirty years dealer groups have tried and are still trying various devices and measures to reduce these losses.

The numerous plans to control losses incurred in buying used cars can be classified into four major types: (1) cooperation among dealers; (2) joint efforts of dealers and manufacturers; (3) combined efforts of the automobile industry, with the assistance of government—United States, Germany, and England; (4) efforts of dealers to secure legislative assistance through licensing acts and Fair Trade laws.

Dealers' Cooperative Measures

Plans for cooperation among dealers have been directed along two distinct lines; namely, a joint effort of all dealers in a community, and cooperation among dealers handling a particular line of cars.

Saginaw Plan—As early as 1914, the automobile dealers of Saginaw, Michigan, attempted a method of price control. Under their plan, Saginaw dealers elected a central committee whose duty it was to establish maximum allowances for all makes and models of used cars. A price list, in the form of a loose-leaf book, was furnished to each dealer,

[14] Chicago Automobile Trade Association, *General Bulletin*, December 21, 1938.

and the book was kept up to date with periodic releases on price changes. As far as the writer has been able to determine, no penalties were to be assessed against dealers, and the success of the plan hinged upon the willingness of the dealers within the community to cooperate.[15] The plan was widely publicized and similar schemes were tried, at one time or another, in various cities in all parts of the country.

The Appleby Plan—A plan copyrighted by the Chamberlain Associates of Detroit, known as the Appleby Plan, was the most discussed used-car plan in the early twenties. In 1923, *Automotive Industries* stated that 25 cities on the West Coast were using the plan.[16] The various provisions were outlined as follows:

1. Dealers are organized into a local unit of Chamberlin Associates.
2. An independent appraiser is appointed by dealers.
3. Each used car offered in trade is carefully appraised as to its present market value.
4. Repairs necessary for reconditioning are noted and the consumer who offers the car in trade is required to pay for these.
5. The consumer is further assessed 10 per cent of the estimated sales price for selling expense.
6. The car is then reconditioned in the service department of the dealer who represents the make of car traded in.
7. The car is turned over to the cooperatively-owned Motor Mart at a price based on the appraisal.
8. The owner receives for his car a warehouse receipt which is redeemed when the car is sold.
9. Orphan cars, and cars not represented by dealers in the community, are reconditioned in a reliable shop.
10. The Motor Mart's inventory is not to exceed a 30 days' supply.
11. One per cent of the receipts from used-car sales is to be paid to the Chamberlin Associates, one-half of which is to be turned over to the local association for activities incidental to the establishment and maintenance of motor marts in the territory.

The weaknesses of the plan in a highly competive market are quite evident. For the 15 years previous to the appearance of this plan, dealers had accepted the responsibility of marketing the customers' trade-ins. Any effort to reverse this practice and return the burden to the car owner was handicapped from the outset. Furthermore, the plan failed to take into consideration the fact that, in order to function

[15] "Dealer Representatives Discuss Used Car Plans," *Automotive Industries*, XLVII (1922), September 21, 564.

[16] "Plan for Used Cars to be Nationalized," *Ibid.*, XLIX (1923), October 11, 763.

successfully, the gross margins alloted by the automobile manufacturers to dealers should be identical—a condition contrary to fact. Manufacturers frequently changed their gross margins, moreover, in order to obtain competitive advantages. Also, the differences in size and financial strength of automobile agencies, and the variations in the business philosophies of the dealers—some seeking to increase net profits through a small profit per car and a large sales volume; others, to obtain the largest possible profit per car—hampered the success of the plan.

The provision for independent appraisals was favored by the stronger manufacturers but was disliked by the makers of less popular cars because it was prejudicial to their interests. The plan was gradually abandoned.

Information on Market Value—Concurrent with the agitation for the Appleby plan, the education of consumers and dealers to used-car market values was advocated. The method suggested was to have manufacturers publicize widely the market value of their used cars from one and one-half to four years old.[17] Also, through associations of dealers, the exchange of current retail sales prices of used cars could be effected.[18]

The manufacturers showed no interest in publicizing the values of used cars of their makes. However, the movement by dealers' associations to furnish their members with information on current price data for used cars progressed rapidly. The plan of furnishing information on market values consisted of an exchange of used-car selling prices among cooperating dealers. In several large cities, including Chicago, St. Louis, Boston, Cleveland, Detroit, and Kansas City, and many smaller cities, the dealers' association secretary, or a special used-car secretary in the association, served as the hub around which the plan revolved. This plan has continued and has been extended into all important cities, but instead of obtaining the sales reports from local dealers, they are usually garnered from the county clerk's office and made available weekly to the trade. This plan, of course, serves merely as a guide to dealers, giving price information of past transactions to indicate the trend. It could be of considerable value if dealers were subject to restraint by market information.

The Michigan Plan—Two recent plans based on cooperative efforts among local dealers have been discussed widely, and have been advocated as possible solutions to the dealers' used-car problem.

[17] *Ibid.*, XLV (1921), December 8, 1142.
[18] *Ibid.*, December 22, p. 1240.

The Michigan or Muskegon Plan is a continuation of the code principle observed during the days of the National Recovery Act, but with local control. New-car dealers are invited to become members of the local association, and upon taking membership they agree to accept the N.A.D.A. *Official Used-Car Guide* prices as the top allowance to be granted on cars offered in trade. Any dealer who deviates from this policy is subject to a fine of $25 for the first offense, and fines increase to $100 for the fourth and subsequent violations. The fifth offense is sufficient reason for cancellation of membership in the local association; failure to pay fines levied by the association also brings dismissal from the group, and the offending dealer becomes known as an "outlaw." When a dealer reaches this standing, members of the association center their attention on taking away from him each of his prospective deals by offering higher trade-in allowances to his customers. Any losses suffered by an association member from this cause are borne by the association's treasury. Also, members are expected to sever all relations within the following ten days with any bank, finance company or investment company with which the outlaw is doing business.[19]

In March, 1938, the National Automobile Dealers Association *Bulletin* reported that the plan was still in operation in Muskegon, and that, through the control of used-car allowances, a saving of as much as $11,700 on the sale of 289 new cars had been effected. Dealers in Muskegon reported savings of $25 to $40 per car, and indicated that they had no trouble in netting 5 per cent on their turnover.[20]

Some dealers dislike the plan because it is contrary to an individualistic philosophy of doing business. The manufacturers view it with suspicion for it limits used-car trade-in allowances, and any such limitation reduces or retards new-car sales. Its successful operation is a challenge, however, to dealers of other communities.

The West Coast Plan—The second recent plan, the West Coast Plan, also has been the object of experiment. This scheme of controlling used-car losses may be described as the central appraisal bureau plan. The bureau is financed and operated by an association of dealers for the purpose of receiving pertinent information relative to every appraisal of a used car offered in trade to a new-car dealer, and the information becomes a part of the official record available to the members of the association.

[19] National Automobile Dealers Association, *Controlling Used Car Losses Through Cooperation* (Detroit, Michigan, 1937), pp. 14-15.

[20] "How Muskegon Controls 'Wild Trading'," National Automobile Dealers Association, *Bulletin*, March, 1938, p. 6. *See also* Federal Trade Commission Report, pp. 365-418.

Before quoting an appraisal on a trade-in offered by any prospective purchaser of a new car, all members of the association are required to telephone to the central appraisal bureau to ascertain whether a member has made a previous quotation.[21] If an earlier offer is standing, there are four possible lines of action open to the inquiring member, depending upon the rules of the particular association to which he belongs: (1) An allowance in excess of this figure may be prohibited to him; (2) a higher allowance may be offered, but it must be a sizeable increase, say $25, to avoid chiseling between members; (3) the dealer may be permitted to offer more than the first dealer but the first dealer must be notified of the new allowance and given an opportunity to meet it; (4) when dealers of one make of car are allotted certain exclusive areas, sales originating in their zones have preferential rights.

These modifications of the central appraisal idea have been employed in many cities; in some areas, encompassing dealers of various makes, but, more frequently, including only the dealers who represent one common manufacturer.

It is the general impression that the success of the plan has been limited where dealers representing various manufacturers have been included,[22] for it is understandable that a dealer may be involved in a conflict of loyalty in which he is torn between the desire to sell more of his manufacturer's cars and an effort to be loyal to cooperating dealers who represent makes of other manufacturers.

The success of cooperating dealers of a common manufacturer may be exemplified by the efforts of Ford dealers in Chicago and of Buick dealers in Philadelphia.

The Ford Motor Company, until the latter part of 1938, unofficially encouraged the local associations of Ford dealers to pursue a plan for central office appraisals, and, at the beginning of 1938, there were 18 adoptions of the plan in operation. In Chicago, four variations of this plan were tried by Ford dealers and supported for over two and one-half years.[23] These central-office appraisal plans were of two basic types. One might be called a rigid price-fixing agreement, in which no dealer could allow more than the book value on appraisals unless he could prove the car was worth more. An appraisal, with details, would be telephoned immediately to the central bureau, and, to prove that the car had an excessive value, it had to be appraised by three other

[21] National Automobile Dealers Association, *Controlling Used Car Losses Through Co-operation,* pp. 5-14.

[22] The General Manager of the Chicago Automobile Trade Association, in conversation with the writer, May 20, 1939.

[23] *Ibid.*

dealers. If the average appraisal price of these three dealers indicated that it was worth more, the higher valuation stood.

The second method was the allowance of book value as a provisional maximum. Any other dealer must allow not less than $25 more than the first dealer. The purpose, of course, was to eliminate "chiseling."

After two and one-half years' operation of these plans, the Ford Company became concerned about its sales volume and the maintenance of its relative sales position with respect to its competitors, and discouraged the further use of these controls.

Ford dealers in Chicago, however, have denied that the central appraisal bureaus reduced their new-car sales, and have presented the following statistics to support their contention. The Ford dealers in this area claimed to have sold 3.03 per cent of all new Fords registered throughout the country in the years 1936, 1937, and 1938, in contrast with 3.00 per cent in 1933, 1934, and 1935, and with 2.74 per cent in 1930, 1931, and 1932. Further analysis showed that the loss in sales position in 1938 by this group of dealers was smaller than in other cities.[24]

Another interesting variation of the central-appraisal-bureau plan is that practiced by the Buick dealers of Philadelphia. Their association, known as the Buick Dealers Association of the Philadelphia Metropolitan Zone, is composed of all Buick dealers located in Philadelphia County and in certain portions of Bucks, Montgomery, and Delaware counties. The association operates a competition-control plan, apparently with the sanction and cooperation of the manufacturer's sales representatives.

The Philadelphia area is divided into multiple-dealer areas, a term applied to metropolitan areas where dealers are in keen competition with each other, and have exclusive sales territories. In each multiple-dealer area, every dealer is assigned an exclusive or semi-exclusive trade area, referred to by the manufacturer's sales representative as "zone of influence."

When a trade-in is involved in a new-car deal, an appraisal blank, which necessitates a complete examination of the car, must be filled out. Before quoting the appraisal value to the customer, the dealer must telephone the association's headquarters and report all details to ascertain whether or not a prior appraisal is on file. In recognition of the fact that the first dealer to file an appraisal has done most of the missionary work incidental to making a sale, it is agreed that when

[24] *Motor*, LXX (1938), December, 51.

the first dealer files his appraisal he shall be known as Dealer A; the second, as Dealer B; the third, as Dealer C, and so on.

After an appraisal is filed with the association by Dealer A, the allowance made by Dealer B must be at least $15 *less* than Dealer A's; Dealer C's, in turn, must be at least $25 *less* than Dealer A's. Dealers D, E, and F may allow the same as Dealer C. This rule does not apply, however, when a dealer, who may be the second, third or later appraiser, values a car which is registered in his zone of influence. When this happens, the dealer can allow as much or more than Dealer A.

Penalties for violation of the rules can amount to a fine equal to the gross profit allowed by Buick on the transaction.

The Buick Dealers Association of the Philadelphia Metropolitan Zone is operating under this procedure at the present time.[25]

The success of any centrally-controlled appraisal plan, while primarily dependent upon the good faith of the dealers who cooperate under it, is determined, also, by the attitudes of the automobile manufacturers. The writer interviewed sales executives of the used-car divisions in the factories of Ford, Chevrolet, Dodge and Plymouth, Nash, and Hudson in the spring of 1939, and asked their opinions of central-appraisal bureaus.

An executive of the Ford Motor Company pointed out that his company had been discouraging the adoption of such plans since the latter part of 1938.

The manager of Used Vehicle Merchandising for Dodge and Plymouth cars stated: "These plans have never worked; invariably they collapse within sixty days." To the question of whether or not they failed to work because of factory pressure, his response was, 'Factory pressure was not the cause of their downfall. . . . With such a system it is necessary to set used-car values at the point where the marginal or submarginal dealer can operate profitably. It penalizes the good dealer and is harmful to the public. No allowance is made for the varying merchandising skills of dealers; consequently, any arbitrary figure is unjust. During the NRA days, dealers kept used-car prices so low that frequently good dealers took a used car on consignment, and, after selling it, credited the proceeds to the buyer of the new car.'

The national retail-sales promotion manager for Chevrolet Division made the comment that he had no objection to them (central-appraisal

[25] Federal Trade Commission, *op. cit.*, pp. 377-382.

Other cooperative plans which did not achieve national prominence but were similar to those dealers' plans which have been described were known as: The Winona Plan, the Windsor Plan, the Troy Plan, and the Noyes Plan.

bureaus) but doubted if they could work satisfactorily. He believed that such plans subsidize the inefficient dealer. To support this belief, he said that new-car sales volume is important, and that Chevrolet dealers had made larger profits in 1936 than ever before, despite larger used-car losses.

The above statement, although true, may be challenged on the ground that these profits for the dealer existed only because of factory-recommended accounting systems, and that if dealer accounting methods were used instead of those strongly recommended by the factory, this statement could not be substantiated.[26]

The executives of the other companies, when interviewed, were of the opinion that central appraisal plans were not the solution of the dealers' problem.

"Padding" of New-Car Prices as a Measure to Offset Used-Car Losses—The average car owner with a car to trade in on the purchase of a new car is likely to have two misconceptions: First, he is usually under the impression that his particular car is worth more than the current market price, and consequently believes that he should get more; second, he is under the impression that the price of the new car quoted by the dealer has been established by the factory, and that all dealers operate with the same gross margin.

Under these misconceptions, he sets forth to get the most he can for his car, and either ignores or gives but slight consideration to the most important element in the bargain; namely, the balance between his trade-in allowance and the price of the new car. To verify the existence of this typical consumer attitude, a dealer on the West Coast asked 50 recent purchasers of new cars two questions: (1) What was the list price of the new car you purchased?; (2) What price did you receive for the car you traded in?

Only 3 of the 50 remembered the exact retail delivered price of their new car, but 48 remembered the trade-in allowance they had received for their old car.[27]

The prevalence of this consumer attitude has prompted local dealers of a specific make of car to agree occasionally to raise their new-car prices above the sum of the list price plus freight and service charges. However, dealers have not been solely to blame for this practice. Now and then, a manufacturer, sensing the possibility of increasing sales in certain local areas through this device, has encouraged his dealers to adopt this practice.

[26] Mr. Edward Payton, national consultant in sales and sales management for automobile dealers, Cleveland, Ohio, in conversation with the writer.

[27] *Motor*, LXXI (1939), May, 38.

This ruse probably was employed most extensively in 1938 and 1939. The used-car sales manager of one of the "Big Three" expressed his dislike of the scheme, and was exceedingly bitter towards one of his major competitors who had permitted his dealers on the West Coast to raise new-car prices as much as $85 over the normal retail delivered price.[28]

The sales manager in charge of the used cars of the Hudson Motor Company admitted that the practice was prevalent, but countered with the reply that, "If competitors adopt such practices, one must adopt similar measures in self-protection."[29]

Since consumers are influenced by trade-in allowances, the competitive advantage to the dealers who pad the retail price of new cars is easily discernible. To illustrate this more concretely, the assumption may be made that two makes of cars are in the $1,000 class. The price on one make is raised to $1,050. The customer has his car appraised by dealers of the two makes and finds that, on the $1,000 car, he can obtain a $200 allowance, while on the $1,050 car he gets $250. Falsely, he assumes that the $1,050 car must be a better car since its price is higher, and, since the balance which he has to pay is the same, he naturally leans towards the purchase of the $1,050 car.

With the opening of the 1940 season, General Motors Corporation and the Packard Motor Car Company sponsored a plan which requires their dealers to attach an invoice to each car showing a complete breakdown of the charges—the factory retail price, transportation charges, service charges, and taxes. By this method manufacturers are endeavoring to keep the prices of their cars at the point where they want them. It is a gesture towards consumer protection, but no one would deny that it is also a measure of self-protection for the manufacturers. In commendation of this practice, the vice-president in charge of sales for General Motors Corporation stated: "This policy marks a step in new-car merchandising which some day will be looked upon as being as significant as the decision of John Wanamaker to put price tags on all his merchandise."[30]

Naturally, the dealers' reactions to this policy are not openly expressed. Their comment is that, "it will be all right if all manufacturers adopt a similar policy, but, behind the scene, they can point out that the manufacturers can set their prices to insure a profit while the dealers' markup is limited by the manufacturers."

[28] Sales Manager, Dodge Division, May 10, 1939.
[29] Interview, Detroit, Mich., May 9, 1939.
[30] *Automotive Industries*, LXXXI (1939), October 15, 455.

Another example of padding may sometimes be found in excessive charges for making out sales papers for new cars. Some dealers have picked up a few extra dollars on the sale of new cars in this fashion. While a small amount per car, such petty chiseling has permitted an extra $5 allowance on a trade-in, which may have turned the sale.

Financing reserves, rebates, packs, and excessive insurance charges have been other sources of considerable income to dealers. These are discussed at length in the chapter relating to the financing of used cars.[31] The extent to which these practices have grown has resulted in investigations by manufacturers, state commissions, and the Federal Department of Justice.

Joint Efforts of Dealers and Manufacturers

Junking—By 1925, the question of market saturation was coming to the forefront as a major point of discussion. The rising ratio of used cars sold to new cars sold was disturbing to dealers, and focused the attention of the automobile industry on the six-, seven-, and eight-year-old cars which were repeatedly re-entering the used-car market.

As one writer ably put it, "We have found that our train of gears, 'production,' 'sales,' and 'consumption' meshes a fourth gear, 'disposal.' We have been leaving the lubrication of that gear to dealers. The school of thought that recognizes this as a part of the 'machine' believe it quite as justifiable to lubricate this gear with 'bounty' as to lubricate the sales gear with 'advertising' and include it as a part of the cost of doing business, in the sales price."[32]

The Chevrolet Division of General Motors Corporation inaugurated a junking policy for its dealers about 1925.[33] Under this plan, the Chevrolet Division added $5 to the price of new cars, and allowed the dealer a rebate of $25 to apply on a junk car when five new cars had been purchased. The entire car was to be junked, and parts were not to be salvaged. The ratio of five to one was based on the assumption that, on the average, one junker would be involved in the sale of every five new cars.

Shortly after the introduction of the plan, the Ford Motor Company offered its dealers $20 for junk cars delivered to the Ford River Rouge plant where the company operates an excellent salvage department,

[31] *See* Chapter XII, "Retail Sales Financing of Automobiles."

[32] Letter from Mr. Harry Cobleigh, Manager, Service and Engineering Department, Automobile Manufacturers Association, New York, to Mr. A. N. Benson, General Manager, National Automobile Dealers Association, Detroit, Michigan, April 1, 1938.

[33] Federal Trade Commission, *op. cit.*, p. 92.

sorting out every usable part and reducing the remainder to scrap metal.

On December 24, 1929, a used-car junking plan, known as The Highway Safety Plan, was proposed by the National Automobile Chamber of Commerce. The purposes of the plan were:[34]

1. To remove unfit, unsafe cars from the highways.
2. To do this by inducing "dealers to scrap and scrappers to deal," by providing a subsidy to cover the differential between what car dealers are willing to take and what scrap dealers are willing to pay for an old car.
3. By encouraging trading between car dealers and bona fide scrap merchants, to:
   (a) Reduce the business of small junk dealers in second-hand cars and parts that is prolonging the unsafe use of old cars.
   (b) Re-utilize the useful materials in old cars now wasted by small junk dealers who cannot profitably handle the baser metals.
   (c) Reduce the nuisance of abandoned car remains in vacant lots and on lonely roadsides.
4. To relieve the dealer's used-car problem by assuming most of the loss in unsalable cars so that he may remove them, save storage expense, and concentrate selling efforts on the better used cars.
5. To increase the sales of cars by:
   (a) Making more people desire to drive when roads are safer and scenery more attractive.
   (b) Enlarging the replacement market.[35]

These purposes, as set forth, reveal three basic objectives: (1) to eliminate some 40,000 annual automobile fatalities; (2) to stimulate new-car sales; and (3) to subsidize the dealers in order to reduce used-car losses.

This plan differed only slightly from the Chevrolet plan. The junking allowance made by the manufacturer to the dealer varied from \$25 to \$40, but was not to exceed 1 per cent of the list price of the new car. The amount to be added to the new-car price to provide this fund was left to the individual manufacturer.

Like the Chevrolet plan, it provided for the complete demolition of a junked car without the salvaging of any part, to the end that, not only would a junker be eliminated from circulation in trade, but that sales of new parts for used cars would be stimulated as well.

Coincident with this national junking plan of the National Auto-

[34] *Ibid.*, p. 94.

[35] By 1931, the following organizations had adopted the plan: Buick, Chevrolet, Chrysler, DeSoto, Dodge, Ford, Graham, Hupmobile, Cadillac, Marquette, Nash, Oakland, Oldsmobile, LaSalle, Plymouth, Pontiac, Studebaker, Stutz, Viking, and Willys-Overland. *Automotive Industries*, LXIV (1931), April 11, 605.

mobile Chamber of Commerce in 1930, a plan devised and put into operation in Cleveland, Ohio, was given national recognition.[36]

> The Cleveland (Ohio) Automobile Manufacturers and Dealers Association has completed arrangements with a local salvage company to purchase all of the "Junker" automobiles from the Cleveland dealers on an exclusive contract basis. The details provide for a fair purchase price to the dealers with a bonded guarantee that no complete cars or parts thereof shall be sold by the salvage company except as scrap.[37]

The benefits claimed under the Cleveland plan were: (1) The disposal problem would be met and junkers would be cleared from display rooms and display lots; (2) volume scrapping would insure higher junk prices for the dealers; (3) it should put an end to "junker-repeater" losses for the dealers— cars which dealers have sold to junk yards only to find that they have been reconditioned and re-appeared as trade-ins; (4) no parts were to be salvaged in the hope that the destruction of used parts would increase new-parts business.[38]

The Cleveland experience was enlightening. The handling costs of the junk yard were approximately equal to the sales price of the scrap plus what was paid to the dealers for the junkers. From this experience, it was found that junk yards could profit from the handling of junkers only if used parts could be salvaged and sold. Furthermore, it was discovered that the destruction of parts of cars which were four or more years old was not good economy, for dealers found that it was not profitable to carry new parts for such old items in inventory.

Hence, after the Cleveland experiment, the Highway Safety Plan was revised as of October 31, 1932. The new plan provided for the authorization of salvage yards by the National Automobile Chamber of Commerce upon the recommendation of local dealers. Such yards would be permitted to junk cars, and to salvage used parts, provided they abided by the rules and regulations of the association.

The original plan called for factory supervision of the junking of cars, and this, frequently, had delayed the junking process and piled up costs. The new plan provided that the salvage yard would issue three certificates: one to be forwarded to the National Automobile Chamber of Commerce; one to the manufacturer; and one to the dealer. The certificate contained information which would enable

[36] This is not the first reference to a junking plan sponsored by a local association of automobile dealers. In 1927, Kansas City dealers formed a $50,000 corporation for the purpose of junking 12,000 cars during the next year. *Automotive Industries*, LVI (1927), June 4, 880.

[37] National Automobile Chamber of Commerce, Inc., *Bulletin* No. G1358, July 22, 1930, as reported in Federal Trade Commission Report, p. 93.

[38] *Ibid.*, p. 96.

the National Automobile Chamber of Commerce to determine whether the car had ever been turned over to a salvage yard before, and to avoid its reappearance as a junker.

The plan, with 116 salvage yards, was operated only one year—1933.[39]

The revised plan failed to gain the support of Chrysler, Studebaker, Willys, and Dodge.[40]

Then, in 1934, because the NRA Code for Dealers permitted the National Automobile Dealers Association to set prices on trade-ins, the remaining members argued that dealers no longer needed a junking bounty. However, a member of the staff of the National Automobile Manufacturers Association, Incorporated, stated: "That was the excuse, but my feeling is that the real reason was that General Motors was unwilling to continue practically alone in it, Chrysler and Ford not being participants."[41]

After the NRA Code had ceased to be regulatory in 1935, various attempts were made by dealers to have manufacturers again sponsor junking plans for the industry. As was pointed out, General Motors was the last to abandon the plan before the inauguration of the NRA; the Chevrolet Division was the first to revive the arrangements for junking by announcing the establishment of a $1,000,000 fund early in 1936.[42] By February, 1936, Pontiac, Buick, Oldsmobile, LaSalle, and Cadillac also were supporting this activity.[43] The program, however, was discontinued in the spring of 1936, and has never been renewed.

Mr. Harry Cobleigh, in a memorandum written May 16, 1938, to Mr. Alfred Reeves, Vice President of the Automobile Manufacturers Association, advocated that new-car prices be raised to provide a junking fund. Mr. Cobleigh supported this suggestion on the premise that the consumer has been conditioned to expect a liberal trade-in allowance for his used goods because merchandisers of electrical household equipment, such as radios, refrigerators, or sewing machines, often grant trade-in allowances, regardless of the condition of the used articles, and obviously in excess of their value. He questioned whether the consumer could be induced to accept the true value of his used car, and advocated that the automobile industry follow the practice of such merchandisers.[44]

[39] Federal Trade Commission, *op. cit.*, pp. 95-6.
[40] *Ibid.*
[41] Letter to the writer, December 16, 1938.
[42] *Automotive Industries*, LXXIV (1936), January 4, 2.
[43] *Ibid.*, February 15, p. 210.
[44] Federal Trade Commission, *op. cit.*, p. 99.

That the automobile industry should follow the practices of retailers of electrical household equipment, by packing new-car prices, seems a backward step based on opportunism rather than on sound merchandising—a step which would further reduce consumer confidence in automobile dealers.

In May, 1939, several sales executives, in charge of used-car operations of manufacturers, were asked by the writer to express their opinions of the junking plan as a solution of the used-car problem. One of the Assistant Sales Managers of the Chevrolet Motor Division wrote:

> If there can be an economic method found by which cars that should no longer be in service on our highways can be junked and eliminated, it would unquestionably be a sensible thing from the standpoint of safety. However, the economics of the problem are quite involved, i. e., when we ran a Junking Fund and allowed the dealer a credit of a certain amount —let us say $30 for every junker he disposed of—this immediately became known to the public and they immediately raised the appraisal price of their used cars and forced the dealer to pay this amount in higher appraisals. This then began to reflect itself not only on the junker cars but also on every used car the dealer traded in. I cite this case merely as an example of what happens in a practical operation when sometimes the idea is very good in theory.[45]

The Sales Manager in charge of Dodge and Plymouth used-car sales made the following comment: "Junking plans have been sporadically tried by manufacturers when a concerted effort to sell new cars has been undertaken. The unintelligent dealer likes it for the manufacturer reserves $10 for each new car he sells. This he happily gives away, and so motor sales are increased."

A representative of the Ford Motor Company tersely summarized his reaction to a junking-fund policy as follows: "Any junking fund that has been submitted to date has very little merit inasmuch as generally any such plan merely suggests larger discounts."

The merchandising manager of the Nash Motor Division and a representative of the Hudson Motor Company expressed similar opinions.

Is Junking Justifiable?—The theory that junking stimulates used- and new-car sales by creating a scarcity of cars is debatable. In the discussion of the demand for used cars in Chapter II, an analysis of the incomes of wage earners indicated that many who now own cars in the junker class would not be able to afford cars in a higher price classification, and if deprived of their present cars, would have to do without private transportation. To deprive these present owners of such

[45] Letter to the writer, May 25, 1939.

vehicles would have its effect on the petroleum, tire, parts, and accessories producers and distributors, and would make serious inroads on tax receipts.

The best argument that can be found for a junking plan is that of increasing public safety. While this has been shouted from the housetops, it closely resembles a politician's flag-waving to hide the real issue. It is true that there are an appalling number of fatalities caused by traffic accidents each year. Anything which would prevent or reduce this terrible slaughter would be welcomed by the country, and there would be little tendency to quibble about the cost.

Data collected and released by the Travelers Insurance Company do not bear out the contention that a large percentage of accidents are due

TABLE 22 — CONDITION OF MOTOR VEHICLES INVOLVED IN FATAL AND NON-FATAL ACCIDENTS, 1938

(Source: Travelers Insurance Company, *Lest We Regret* [Hartford, 1939], p. 18.)

Mechanical Condition of Car	Vehicles in Fatal Accidents		Vehicles in Non-Fatal Accidents	
	Number	Per cent	Number	Per Cent
In apparently good condition......	34,430	92.4	1,161,820	95.2
Brakes defective	710	1.9	19,530	1.6
Steering mechanism defective......	220	.6	3,660	.3
Glaring headlights	190	.5	2,440	.2
One or both headlights out........	300	.8	6,100	.5
Tail-light out or obscured.........	220	.6	4,880	.4
No chains (wet and slippery road).	110	.3	4,880	.4
Other defects in equipment........	520	1.4	6,100	.5
Puncture or blowout.............	440	1.2	8,550	.7
Miscellaneous	110	.3	2,440	.2
Total	37,250	100.	1,220,400	100.

to mechanical defects of cars. Table 22 shows the division between fatal and non-fatal accidents in 1938, and the percentage of accidents attributable to defective automobiles.

If the fatal and non-fatal accidents caused by defects are added together, they represent 4.9 per cent of all accidents. The nature of the defects listed does not permit them all to be arbitrarily attributed to older cars. In fact, there is adequate support for the statement that the cars of earlier years do not predominate in automobile accidents, when the number of cars in accidents are related to the number of cars of each year model registered. Table 23, based on data released by the Connecticut State Department of Motor Vehicles, compares accidents with the ages of cars, for Connecticut, during the first six months of 1939. From the experience in Connecticut, it is seen that cars less than

five years old were involved in a higher ratio of accidents than were older cars; oddly enough, the oldest age group had the best record of all age groups. From these findings, little, if any, support can be found for junking under the guise of public safety.[46]

TABLE 23 — CARS INVOLVED IN ALL MOTOR VEHICLE ACCIDENTS, FIRST SIX MONTHS, 1939, STATE OF CONNECTICUT

(Source: Connecticut State Department of Motor Vehicles, *Cars of Yester Years*, 1939, p. 5)

Model Year	Number of Cars Registered	Number of Cars in Accidents	Ratio of Accidents to Registrations
			Per Cent
1930 and older	93,543	1,160	1.2
1931	42,505	655	1.5
1932	28,001	552	2.0
1933	36,310	713	2.0
1934	42,207	994	2.4
1935	45,279	1,168	2.6
1936	67,189	2,098	3.1
1937	75,600	2,664	3.5
1938	33,573	1,381	4.1
1939	39,411	921	2.3
Total	503,618	12,306	—
Average	—	—	2.4

The combined efforts of the automobile industry, with the assistance of governments, to control losses on used cars, and the efforts of dealers to secure legislative assistance through licensing acts and Fair Trade laws are discussed in Chapter VIII.

[46] This is further substantiated in a study made in Washington, D. C., for the first six months of 1935, in which similar results were obtained from an analysis of 5,321 accidents. Victor W. Killick, Chief, Bureau of Statistics, Department of Motor Vehicles, *Can We Build Automobiles to Keep Drivers Out of Trouble?* (San Francisco, Calif., 1940), pp. 55-57.

CHAPTER VIII

'HE BUYING OF USED CARS BY AUTOMOBILE DEALERS
(continued)

Governmental Assistance in Limiting Used-Car Trade-In Allowances

Iational Recovery Act

The severe depression of the early thirties found the automobile ealers most receptive to the National Industrial Recovery Act. Auto- ıobile retailers were the first retailers to effect a code for their industry.

The stated purpose of the code was that of "increasing employment, stablishing fair and adequate wages, effecting necessary reduction of 'orking hours, improving standards of labor, and eliminating unfair ade practices to the end of rehabilitating the Motor Vehicle Retail 'rade and enabling it to do its part toward establishing that balance of ades which is necessary to the restoration and maintenance of the ighest practical degree of public welfare."[1] More specifically, pro- ısions were included to maintain prices of new cars, parts, and acces- ›ries, and to regulate the resale of demonstrators. Since the basic roblem that dealers faced was that of the used car, detailed regulations 'ere provided to govern, directly or indirectly, allowances to be made ›r used cars.

The values of used cars for designated market areas were to be tablished through the National Automobile Dealers Association, 'hich was authorized to publish a guide book of prices for the retail ivision of the automobile industry. Information was to be collected om each section of the country and new prices released every 60 ays.[2] Dealers were forbidden to accept in trade any used vehicle at an lowance price above the published value, from which a minimum :lling, handling, and reconditioning charge, computed according to a ›ecified scale, had been deducted.

The importance of the regulations relating to used-car prices was ırticularly stressed by Mr. F. W. A. Vesper, General Manager of the 'ational Automobile Dealers Association, and Chairman of the Na-

[1] *N.R.A. Codes of Fair Competition,* Vol. I (1933), October 3, pp. 568-9.
[2] The method of compiling these data is explained in Chapter IV.

tion Control Committee under the NRA, when he appealed to the dealers for support:

Without question the dominant idea in the operation of our Code revolves around the benefits to be obtained through the provisions of the Used Car Section.

This is the keystone of our entire Code. Most of our problems center around it. We strongly urge every dealer to concentrate upon the solution of this phase of our program above everything else. Do not permit less important problems at this time to sidetrack you from the big objective.

During many years, including the period of the greatest depression this country has ever known, you have lived through all these problems. Now that your opportunity is here to eliminate for once and all this greatest of all evils in our industry, we are confident that every dealer will follow unhesitatingly.

As dealers you will progress more rapidly and soundly if you devote your entire attention to this single problem. It may be necessary to continue for a time to put up with some of the many other problems in order to gain the desired result.[8]

The automobile manufacturers watched the development of the retail code with some concern. They recognized the plight of the dealers who had been trying to cope with an uncontrolled situation in trade-ins, but they felt—and justifiably so—that severe reductions in used-car trade-in allowances would have serious repercussions on the volume of their new-car business. The following letter, under date of August 31, 1933, addressed to the National Automobile Dealers Association by Mr. R. H. Grant of General Motors, Chairman of the Sales Managers' Committee of the Automobile Manufacturers Association (National Automobile Chamber of Commerce), describes, in part, the reaction of the manufacturers:

The National Automobile Chamber of Commerce committee believes that if the dealers of this country were to establish a policy of deducting 20 per cent of the sales price from all used cars in determining the allowance that can be made for those cars, the volume of new car sales would be materially curtailed, and, simultaneously, of course, new-car production would decline. Looking at the matter from the dealers' standpoint, we are afraid that if the code is as drastic in setting low used-car allowances as the dealers have advocated, they will defeat their own purpose of making more profit because their volume will be reduced to the point where the loss of new-car revenue will overcome the benefit obtained from lower used-car losses.

Used-car allowances which were fixed on this basis would be so far below the allowances that the public has been getting, and consequently so far below the allowances that they expect, that the public would stop buying in present quantities. A drastic reduction in used-car allowances is,

[8] National Automobile Dealers Association, *Bulletin*, December 11, 1933.

of course, an equivalent to an increase in new-car prices. For this reason the National Automobile Chamber of Commerce committees do not feel that they can support any program which calls for an allowance price based on a deduction of 20 per cent from the average sales price of a used car.

However, we do believe that the dealers' code should take steps toward reducing used-car losses, and we are willing to support a 10 per cent deduction from average used-car sales prices for the purpose of setting allowances. The committee believes, and all of its statistical studies indicate, that a 10 per cent deduction will be sufficient to bring about a tremendous reduction in dealer used-car losses, and yet at the same time will not mean so radical an increase in the cost of the automobile to the American public as to bring about a condition which would not only defeat the purpose of the code but the more fundamental purposes of the National Industrial Recovery Act as well.[4]

A year and a half later (January 23, 1935), Mr. Leon Henderson, Director of the Research Division of the NRA, reported to the President of the United States that the Retailers' Code and its maximum trade-in allowance-value provisions had received very little active support from the manufacturers:

A number of sales executives of the manufacturing plants have openly expressed themselves to the effect that the provision is unworkable and has broken down, but they have done nothing to help make it work or to suggest a substitute which will enable the dealer to operate at a profit. The welfare of the dealer is at best at the mercy of the manufacturer who makes changes as he wishes without full consideration of the effect on the dealer's pocketbook.[5]

Moreover, during the period when the code was in operation, the manufacturers did nothing to help curb violation of the code by dealers, because they felt that the restricted used-car allowance was retarding their new-car sales. The annual surveys of dealers' operations, conducted by the National Automobile Dealers Association, revealed that losses by dealers on used cars were less in 1934 than ever before or since.[6]

Dealers' Efforts to Continue NRA Benefits—When a decision of the United States Supreme Court invalidated the National Industrial Recovery Act,[7] dealers immediately besieged the Congress of the United States and the President to effect some substitute plan which would restrict used-car allowances.

On June 13, 1935, the National Automobile Dealers Association made a formal application to the Federal Trade Commission for a

[4] Federal Trade Commission, *op. cit.*, p. 56.
[5] National Automobile Dealers Association, *Bulletin*, May 1, 1935, p. 3.
[6] *See* Appendix B.
[7] *A. L. A. Schechter Poultry Corp.* v. *United States*, 295 U. S. 495.

trade-practice conference. The National Automobile Dealers Association proposed six rules for the industry; four of the six embodied price-fixing arrangements involving control of used-car trade-in allowances. Of these, the Commission disapproved. In the following year, September 16, 1936, the Automotive Trade Association of Washington, D. C., made application to the Federal Trade Commission for a trade-practice conference on behalf of those engaged in the sale of motor vehicles and equipment in the District of Columbia and immediate trading area. The Commission refused this application, but advised that it would be pleased to consider an application for a nation-wide conference.

On June 30, 1937, the National Automobile Dealers Association, on behalf of the nation's automobile dealers, filed an application for a trade-practice conference. The conference was held April 26, 1938, at Detroit, Michigan, and at that time the industry adopted tentative trade-practice rules and submitted them to the Commission for approval. During the Detroit session dealers expressed the opinion that a fair trade code could be, at best, only partially successful if provisions were not made to control excessive used-car allowances. The Federal Trade Commission's antipathy to price control provisions, based on the Anti-Trust laws, temporarily destroyed any hope that conditions might be alleviated through such procedure.[8]

On February 19, 1940, the Federal Trade Commission released its *Proposed Trade-Practice Rules for the Automobile Industry,* and scheduled hearings on the proposed rules for March 20, 1940, in Washington, D. C. For the third time, the Commission specifically forbade cooperative efforts to limit used-car trade-in allowances. Its disapproval is expressed in Rule 26, which reads as follows:

Rule 26—Unlawful Conspiracies and Combinations to Fix or Control Prices, Suppress Competition, Restrain Trade or Create Monopoly:

It is an unfair trade practice for any member of the industry, directly or indirectly, to enter into, or take part in, any unlawful combination, conspiracy, agreement, understanding, concert of action or scheme between two or more members of the industry, or of any organization or group of persons or concerns, (a) to fix, depress or control the prices which any member of the industry may allow or pay for used motor vehicles, or to fix, maintain, enhance or control the prices at which any member of the industry may sell motor vehicles either new or used; or (b) to otherwise suppress competition, restrain trade, or create monopoly.[9]

[8] "Dealers Want Used Car Control in Fair Trade Rules," National Automobile Dealers Association, *Bulletin,* July, 1938, p. 2.

[9] Federal Trade Commission, *Proposed Trade Practice Rules for the Automobile Industry* (Washington, D. C., February 19, 1940), p. 10.

The present attitude of the Federal Trade Commission against co-operative control measures reflects not only the opposition of the Commission but the position taken today by the administrators of the United States Department of Justice.

The Marketing Regulation for the German Automobile Industry

In 1933, the same year that the industry and commerce of the United States were being regulated under the National Recovery Act, the German automobile industry was placed under state regulation. The German control, known as "The Marketing Regulation for the German Automobile Industry,"[10] became a part of Germany's system of regimentation, effectively binding every individual and firm in the industry.[11]

A summary of the regulating provisions is presented on page 259 of the Appendix. The similarity of this movement to that resulting in the Retailers' Code under NRA is striking. The provision for handling old cars is explained by Director Dalchow as follows:

> In order to get rid of the international vocational inclination to disguise special advantages accorded to individual customers by intentionally or unintentionally overvaluing old cars to be taken in part payment, it was laid down that all such cars without exception may not be accepted until they have been valued by one of the valuation offices of the D. A. T. and when the amount set off as part payment is not more than the value assessed by that office.[12]

The functioning of a central appraisal board for used cars is one of the basic principles of the plan. By 1936, there were 201 valuation offices established in the Reich, and during that year, 160,000 cars were appraised. The average appraisal value of the used cars was Rm. 1193 as compared with the average new-car price of Rm. 2910.[13] It is estimated that these central appraisal bureaus did reduce used-car losses, saving dealers Rm. 110,000,000, or 10 per cent on their used-car

[10] "The Marketing Regulation for the German Automobile Industry, Its Object, Contents and Success," an address delivered and published by Director Dalchow, Manager of the German Automobile Trustee Company, Ltd., at the international meeting of the Automobile Industry, Berlin, Germany, February 21, 1937.

[11] "It is not necessary to conceal the fact that the first start to obtain the signing of the Marketing Regulation in 1931 was a failure for lack of the necessary unanimity of all concerned, but it may be stated publicly and thankfully that the success of the second start is to be ascribed solely to the unremitting educational work to develop the community feeling and community achievement among the entire nation to which our Führer Adolf Hitler and the National-Socialist movement devoted themselves, so that in September, 1933, a written appeal to the industrial, import and commercial firms numbering about 3000 then domiciled in Germany sufficed to make them decide, one and all, to join immediately and voluntarily in the community work of clearing up the market, so that the Marketing Regulation could then come into force with effect from the 11th November, 1933." *Ibid.*, p. 5.

[12] *Ibid.*, p. 4.

[13] *Ibid.*, p. 7.

sales. Whether or not this saving completely eliminated losses on used cars is not disclosed, but a reasonable assumption is that it did.

The question of whether or not consumers have suffered by such marketing regulations is answered by Director Dalchow, who stated that, between 1933 and 1936, the official index figures of the prices of new passenger cars had been reduced 11 per cent, in spite of rising costs of raw materials and improved cars, more than offsetting the reduced used-car appraisals.[14] If it can be assumed that these facts are accurate, consumers as well as dealers have profited from this form of marketing regulation.

The Measures of English Control

As early as 1914, the legality of price maintenance on automobiles was sustained by an English court. In London, on March 16, 1914, the Ford Motor Company won a suit against J. Armstrong, Piccadilly automobile agent, in the amount of $6,250, for selling cars to the British automobile owners' combination at less than $750. This decision established the right of the Ford Motor Company to fix a minimum price at which its automobiles might be sold in England. The Ford system of distributing cars provided for 1,000 sales districts, each agent receiving exclusive territorial rights. The Ford Motor Company contended that if cars were sold for less than the list price, the reputation of the Company and the car would be seriously damaged.[15]

The attitude of the courts towards price maintenance, as illustrated by the verdict in favor of the Ford Motor Company, has permitted the automobile industry in England to develop controls on new-car prices and on trade-in allowances for used cars without governmental interference—a practice approached in the United States only in the months of the NRA.

In England, according to a report issued by the Motor Trade Association, London, in June, 1938, the used-car-price guide is published under the direction of the Motor Trade Association, which includes as its members manufacturers and distributors as well as dealers. The *National Used Car Price Book* furnishes the basis for a system of price maintenance with respect to used cars, and, indirectly, to new cars.[16] This price book is the authority for values to be allowed on used cars of all makes and models taken in trade on the English market. It

[14] *Ibid.*

[15] *The Automobile*, XXX (1914), March 19, 662.

[16] It was pointed out in Chapter IV that the manufacturers in the United States have taken no part in the construction of guide books for used-car prices, and that such compilations have served only as sources of market information.

contains quotations on models for five previous years, and information on methods of calculating allowances on earlier models. It is published each month, with revisions based upon returns received from hundreds of dealers in all parts of England and Wales as to prices obtained in the sales of used cars.

Any dealer granting a trade-in allowance which exceeds the current used-car price-book values is subject to being black-listed by the Motor Trade Association in the same manner as if he sold a new car for cash at less than the manufacturer's price. A black-listed dealer cannot obtain supplies of any kind, including new cars, from manufacturers who are members of the Motor Trade Association, and obviously, his business is brought to a close.

In January, 1938, the Executive Committee of the Motor Trade Association appointed a commission to consider and report on the operation of the *National Used Car Price Book*. Its report, published in June, 1938,[17] set forth certain findings to the effect that:

1. The control of used-car prices through the *National Used Car Price Book* was effective and sound.
2. Published used-car prices were satisfactory for the low-priced and low-horsepower cars, but less satisfactory in the middle and high-priced fields.
3. Due to a time lag in the release of information, published prices were, in general, somewhat too high for current values.
4. The ratio of used cars sold to new cars sold was 2.5 to 1 (a ratio somewhat higher than that in the United States).
5. There was a tendency to regard the new car as the sole source of profit; an even break was the best to be hoped for in the sale of used cars. This attitude was considered to be unsound in the light of the high ratio of used cars sold to new cars sold.
6. Since at least 90 per cent of new cars sold replace other cars, new- and used-car markets are interdependent, and it is an economic impossibility to force the new-car market, save at the expense of the other.
7. The public was aware of the book and they used it as a lever for obtaining maximum allowances.[18]

The recommendations of the Commission, resulting from this survey, included the following:

[17] Commission on the National Used Car Price Book, *Report*, issued by the Motor Trade Association (London, England, 1938).

[18] *Ibid.*, pp. 2–5.

1. Allowance prices on used cars should, in so far as practical, reflect the use to which a car has been subjected. To base an allowance on mileage, however, is impossible, while valuation based on yearly models is unfair. Instead, the length of the car's registration is the most practical and equitable method. The Commission recommended that values be published to reflect the difference between models released at the beginning of a model year and those in the latter half of the model year, at least for the first two years of the model's existence.
2. For cars offered in trade and not listed in the *National Used Car Price Book*, dealers should be required to refer to the headquarters of the Motor Trade Association for the basic value.
3. The manufacturers should be compelled to relinquish their control of the Book.
4. No basic book value should be published until the value of the car has fallen to or below £200.
5. Book values as calculated are high, and fail to provide for reconditioning and selling costs. They should be calculated on averaged reports and advertisements, and reduced as follows: For cars up to 4 years old, by 15 per cent of the original list price; for cars 5 to 6 years old, by 10 per cent of the original list price. In March, April, May, and June, the reductions should be only 12 per cent and 7.5 per cent, respectively.
6. The book basic values thus obtained should be permitted to be increased up to a maximum value, arrived at in the manner described below (known as the plus allowance). The two variables used to determine the plus allowance are: (1) the number of years of use, i.e., registration, of the car traded in; (2) the list price of the new car being purchased.

Length of Registration	*Base Price*	*Plus Allowance*
1 to 5 years	Book Basic Value	£1 for each complete £10 of new car list price
6 years	2½% of original list	16/ for each complete £10 of new car list price
7 years	" " " "	12/ " " "
8 years	" " " "	8/ " " "
9 years	" " " "	4/ " " "
10 or more years	" " " "	No additions permitted.

The following example illustrates an application of this schedule:

A used 1936 Rover "10" Saloon is offered in trade. Book Basic Value is £109. A new similar model is listed at £255; therefore the maximum

permissible allowance would be £109 plus £25 or £134. Against a new Rover "16" listed at £360, the trade-in allowance could be increased by any amount up to £109 plus £36 or £145.[19]

The recommendations of the commission indicated that rigid allowances for used cars had certain serious drawbacks, and that sales of higher-priced new cars probably could be stimulated if trade-in allowances could be increased when the customer purchased a new car in a higher price classification. The commission argued that if a flexible policy, with definitely controlled limits, as illustrated, was made possible, sales efforts would be stimulated, and the motor industry would obtain a larger share of the expenditures of consumers.

Whether or not the price control of used cars precipitated a break between manufacturers and dealers, the fact is that in July, 1938, in order to stimulate new-car sales, several manufacturers removed the established sales price from new cars, and, in effect, told dealers to sell them for what they could get. Several other manufacturers threatened to follow suit. The dealer members of the Motor Trade Association who had enforced used-car book allowances found that this action by the manufacturers nullified the advantages which accrued from the control of used-car allowances. Reasons for the revolt of the manufacturers seem to have arisen out of desperation at reduced sales. Until recently, the British industry has been harassed by the dumping of German-made cars which speeded the market to a point of saturation.[20]

The unsettled conditions in the English automobile market prevent the passing of judgment on English efforts at price control.

State Legislation

State Licensing Acts

Unable to effect price control through cooperative measures of dealers, or through joint action of dealers and manufacturers, various associations of dealers have turned towards state governments for control through legislative channels.

Today, in order to operate a motor-vehicle retail establishment in Wisconsin, Ohio, Nebraska, Iowa, and Minnesota, it is necessary to obtain a license from the proper state authority. These licenses must be renewed annually, and may be denied or revoked for various causes. A licensing and price control law, enacted in Pennsylvania, July 1, 1937, was made inoperative by a decision of a Pennsylvania Common Pleas Court. Bills proposing to license motor-vehicle dealers were intro-

[19] *Ibid.*, pp. 7-16.

[20] "Price De-Control Jolts British Trade," *Automotive Industries*, LXXIX (1938), July 16, 77.

duced, but not enacted, at the 1938 legislative sessions in Illinois, Colorado, Kentucky, Rhode Island, Vermont, and Washington.[21]

Prior to the licensing laws regulating the motor-vehicle trade, only three broad types of business licensing statutes existed: (1) licensing for revenue only, in states and municipalities which levy taxes for the privilege of doing business; (2) licensing for the protection of public health or safety, e.g., restaurants, barbershops, and professional practitioners, and the sale of firearms, explosives, narcotics, and liquor; and (3) licensing or chartering of utility services—power, light, gas, water, transportation, and communication—where public regulation accompanies a grant of monopoly privileges or of rigidly restricted competition.[22] While vending of automobiles may touch on some of these points, automobile-dealer licensing laws fail to fall into any of the above categories.

The primary objectives of the licensing laws sponsored by dealers have been: (1) to restrain manufacturers in the establishment of new-car dealerships; and (2) to deprive dealers of the right to do business by withholding licenses from those dealers (a) who lack adequate financial resources, (b) who have followed questionable business practices, (c) who are operating unprofitably, or (d) who grant excessive trade-in allowances.

Excessive used-car allowances, or "wild trading," is the business practice which dealers most often wish to eliminate.

The Wisconsin Enactment—The Wisconsin law of 1935, which licensed motor-vehicle dealers, motor-vehicle salesmen, and sales finance companies, was the first state law to regulate the marketing of automobiles. Revised in 1937,[23] it is the most comprehensive of all state licensing laws, and has been used by legislators of other states as a model.

The Wisconsin law requires the licensing of manufacturers' representatives or branch sales establishments, of dealers, and of finance company operators, and provides protection to the consumer. Its primary objective is to eliminate price-cutting tactics which appear through the granting of excessive used-car allowances. This is accomplished by requiring dealers to open their books to the inspection of the Division of Consumer Credit in the Banking Commission, and to prepare "washout" sheets[24] for each of their transactions.

[21] References will be cited, *infra,* when specific enactments are discussed.

[22] "Motor Vehicle Dealer Licensing Laws in Force November 15, 1938," a survey published by the Automobile Manufacturers Association, New York, N. Y., p. 1.

[23] Wisconsin Statutes, 1939, Section 218.01.

[24] The "washout" sheet is the means of determining the profit or loss on an original sales transaction involving a used-car trade-in. Not until the used car is sold may the profit or loss on the original transaction be determined. The sale of two or more used cars may be necessary before a dealer can determine whether the original transaction was a profitable one.

The Secretary for the Wisconsin Automobile Dealers Association has claimed the following results under the enforcement of the law:

> . . . Overallowances have been reduced from $75 to $25 over a year ago. In concrete terms, this simply means that Wisconsin, which will sell 50,000 new cars this year, will save $50 per car, or two and one-half million dollars which they otherwise would have passed on to new-car purchasers.[25]

Wisconsin has been fortunate in that, coupled with a well-devised enactment, it has had a superior personnel administering the law. Consequently, the dealers in that state have given the law and its administrators hearty cooperation. Dealers in other states which have similar licensing provisions, if not opposed to them after a trial period, have been at best lukewarm in their approval.[26]

Pennsylvania—An examination of the law passed in Pennsylvania in July, 1937, which was declared invalid,[27] shows that its provisions differed from those in the other states in that licensing was not to be directly regulatory but was to serve as the basis for a contemplated state-controlled appraisal bureau for used cars, similar to the German system of control.

With respect to the used-car section of this law, trade surveys of used-car prices were to be made every thirty days by a commission of five members appointed by the governor, and prices for used cars were to be established from these findings. Appraisers were to be authorized by the state upon payment of an annual license fee of $25, and it was to be their duty to evaluate every used car offered in trade. Allowances were not to exceed the prices established, and deductions were to be made for reconditioning to make the vehicles safe for the highways. So important was this price-fixing provision that a rider was attached to the act, stipulating that if the price-fixing provision of the act should be declared unconstitutional, the remainder of the act would become void.[28]

Nebraska—Nebraska is the only one of the five states operating under a dealer licensing law which has a provision specifically relating to excessive trade-in allowances. In the Nebraska law,[29] there is a pro-

[25] Federal Trade Commission, *op. cit.* p. 406.

[26] Philip Smith, "What Does Licensing Get You?" *Automobile Trade Journal*, March, 1939, p. 16. Mr. Smith estimated that 90 per cent of the Wisconsin dealers favor the state licensing law.

[27] The Dauphin County Common Pleas Court, in handing down its decision, November 15, 1938, based its conclusions on the following reasoning: "If prices may be fixed for automobiles, we see no reason why they may not be fixed for any of the ordinary necessities of life." The law was never enforced, and expired May 31, 1939. *Automobile Facts*, December, 1938, p. 3.

[28] National Automobile Dealers Association, *Bulletin*, July, 1937, p. 4.

[29] Compiled Statutes, 1939 Cumulative Supplement.

vision for local surveys of trade-in allowances to be made by the administrator of the law, to determine whether any dealers have violated the regulations on excess allowances and discriminations between customers. The surveys are to be made at the request of 40 per cent of the dealers in a county. These surveys would establish a basis for future used-car allowances by dealers in the area. The law further provides against the following two forms of discrimination:

Wilfully discriminating either directly or indirectly in price between different purchasers of a commodity of like grade or quality when the effect of such discrimination may be to substantially lessen competition or tend to create a monopoly or to injure or destroy the business of competition.

Wilfully discriminating in favor of one purchaser against another purchaser of a motor vehicle by contracting to furnish or furnishing services or facilities or allowing such discounts or rebates in connection with the sale or offering for sale of such motor vehicles purchased upon terms not accorded to all purchasers on proportionally equal terms.[30]

While the law is not an outright statement of price control, violators of the accepted price schedule may find it impossible to renew their annual licenses. Whether or not this law would be declared constitutional by the Nebraska courts, in light of the experience in Pennsylvania, is open to serious doubt.

The manufacturers of automobiles, directly, and through their organization, the Automobile Manufacturers Association, indirectly, have vigorously opposed all licensing legislation, and have sought to break down the operation of these laws in much the same manner as they did the Retailers' Code under the National Recovery Act.[31]

Whether these licensing laws will eventually prevail throughout the country depends upon the future relationship between automobile dealers and manufacturers. The current slogan of the manufacturers seems to be: Let's resort to round-table discussions rather than to legislation. The dealers who are for the most part independently financed are open to this suggestion, for they, too, are opposed to governmental regulation, commonly referred to unfavorably as governmental regimentation.

The uncertainty on the part of the dealer as to the path he should follow is illustrated by the action of dealers in Evanston, Illinois. At one of their meetings in the spring of 1939, 12 of the 16 members voted

[30] National Automobile Dealers Association, *Bulletin*, July, 1937.

[31] In conversation with the Executive Secretary of the American Finance Conference, Chicago, the writer learned that the A. M. A., one of the strongest trade associations in the country, has from 80 to 200 fieldmen employed for propaganda purposes. Numerous paid articles are written to color licensing acts, and thousands of dollars are spent to break down licensing laws, and to put a stop to licensing activities.

to support a state licensing bill. Ten days later, another poll was taken, and 12 of the 15 present voted against such a plan. Such a shift of sentiment is quite common; a factory concession, a good week of sales, or some other significant factor readily shifts the opinion of dealers.[32]

The year 1939 witnessed marked liberalization of dealers' franchise agreements, and the inclusion of dealer representation in factory sales-policy-making bodies. If these steps tend to alleviate the difficulties, the pressure to enact legislation to protect dealers may be removed.

Another factor which has definitely cooled the dealers' attitude towards licensing is the unfavorable court decision which declared the Pennsylvania law unconstitutional. This is the only state law which provided for independent used-car appraisers, licensed by the state. If price maintenance is not possible under state and national constitutions, the desirability of licensing laws is lessened. Regimentation, such as that in Germany or England, loses its force if price-control measures cannot be obtained.

Fair-Trade Laws and Unfair-Trade Laws Related to the Automobile Retail Trade

That price cutting is rampant in the automobile trade is established. The question of whether or not this practice can be curbed under existing laws is frequently raised.

Overallowances and discounts could be curtailed in several ways if automobile manufacturers desired to do so. Among these are: (1) through the ownership of retail outlets; (2) by selling on consignment; (3) by refusing to sell to dealers who cut prices.[33] Except for the third measure, with which the Ford Motor Company experimented in 1925 and then was forced by competition to abandon, none of these appeals to the manufacturers.

The present status of price fixing in the United States is best set forth in the Supreme Court's decision in the case of *United States* v. *Trenton Potteries Company*.[34] The Court said: "It cannot be doubted that the Sherman Law and the judicial decisions interpreting it are based upon the assumption that the public interest is best protected from the evils of monopoly and price control by the maintenance of competition . . .". It went on to say that 'fixed prices today through economic and business changes might be unreasonable tomorrow.'

In the case of *Nebbia* v. *New York*,[35] the United States Supreme

[32] General Manager, Chicago Automobile Trade Association, in conversation with the writer, May 19, 1939.

[33] *United States* v. *Colgate and Company*, 250 U. S. 300 (1919).

[34] 273 U. S. 392 (1927).

[35] 291 U. S. 502 (1934).

Court considered as constitutional a New York statute which created a state milk control board, with authority to fix maximum and minimum retail milk prices. The Court pointed out that the police powers of the state extended to the regulation of banking, insurance, professions, employment agencies, building and zoning laws, pool and billiard rooms, sale of liquor, oleomargarine, and of interest charges under the usury laws. The Court concluded that price regulation did not differ from any other kind of regulation by the legislature, in exercise of the police power for the general welfare. From this, it appears that a state may pass price-fixing legislation in the same way that it enacts any other regulatory measure, as part of the police power when the welfare of the people requires it.

While the Robinson-Patman Act, and similar state legislation, has sought to prevent discrimination between industrial buyers and buyers for resale, legislation in behalf of the consumer is still limited, and discriminations between consumers do exist.

Summary and Conclusions

Cooperative Efforts to Curb Excessive Trade-In Allowances—The cooperative efforts of dealers who represent one make of car to limit used-car allowances seldom seem to perpetuate themselves for more than a few months. There are numerous reasons for their failure. The doubtful legality of such efforts makes any contractual agreement among dealers unenforceable by court action. As far as the writer has been able to learn, none of these dealers' combinations was ever prosecuted by local or state governments or by the Federal Government, but the Federal Government's outspoken opposition and the various state anti-trust laws are not conducive to creating dealer confidence in entering such agreements.

Moreover, consumers learn of these agreements through shopping, from salesmen, and from dealers of competitive makes. The result is consumer antipathy towards the dealers who are operating collectively to limit trade-in allowances, and shortly thereafter the dealers are forced to abandon this procedure.

Automobile manufacturers view with distrust their dealers' limiting trade-in allowances, for competitors take advantage of the situation and the manufacturer's sales volume is reduced.

Granting that the aforementioned causes have discouraged dealers from embarking on programs of allowance-control, or have reduced the effectiveness of such organized efforts, the essential reason for the failure of these plans has been the lack of a standard of used-car

values. The prices quoted in the *Blue Book* and the N.A.D.A. *Official Used Car Guide*[36] furnish a good estimate of base prices, but varying local conditions and sales opportunities can temporarily reduce their effectiveness. For example, a differential of 25 per cent in used-car values existed between Philadelphia and Washington, D. C., in 1934, although both cities were included in one market area under the operation of the NRA.[37]

Also, it can be successfully argued that fixing a maximum allowance-price works a hardship on certain dealers whose operating efficiency is above the average, or whose physical plant set-up and geographical location permit them to operate with smaller overhead and lower costs, which in turn could result in lower prices to the consumer.

Legislative Efforts of Dealers to Curb Excessive Allowances—Legislative efforts of dealers have been directed along two lines: (1) to secure permissive legislation from federal or state governments to limit used-car allowances in a manner similar to that embodied in the NRA retailing code; and (2) to effect selective licensing of dealers.

The first method has thrice been denied by the Federal Trade Commission, and the current philosophy of the Federal Government is opposed to such measures.[38] The adverse ruling on the constitutionality of the Pennsylvania law, which endeavored to establish independent used-car appraisers and to force dealers to adhere to the appraised value when accepting a car in trade,[39] gives dealers in other states little hope that similar legislation in their own states would suffer a better fate.

It has been suggested that the Fair Trade laws enacted by the states could be applied to automobile retailing to eliminate price cutting. In the retailing of automobiles, price cutting is not achieved through a reduction in the new-car price but through increasing the used-car allowance. Hence, the application of this law would involve establishing trade-in allowances for used cars, and permission to do this has been denied.

The second legislative approach, that of restricting trade-in allowances through selective dealer licensing laws, is illustrated by the Wisconsin Licensing Act. Any dealer who fails to show a profit because of his practice of granting excessive used-car allowances may find it impossible to renew his annual license. To enforce this act, the Wisconsin Banking Commission, under whose jurisdiction the admin-

[36] *See* Chapter IV.
[37] *Automotive Industries*, LXXIV (1936), February 15, 228.
[38] *See* Chapter VII, "The Buying of Used Cars by Automobile Dealers."
[39] *See* p. 133, *supra*.

istration of this act lies, requires that each dealer present an annual balance sheet, a profit and loss statement, and a "washout"[40] sheet for each new-car sale.

This law does not set arbitrary limits on used-car allowances, but compels dealers to maintain complete records as a device to curb excessive used-car allowances.

If governmental control is necessary to insure intelligent competition and to curb malpractices in automobile retailing, the Wisconsin act is adaptable to our present competitive system of business, and permits dealers to offer higher trade-in values if and when their operating efficiency and their merchandising skill permit them to do so.

The arbitrary control of used-car trade-in allowances has the same weakness as any other price-fixing program. The usual tendency is to peg the price at the point where the marginal and even sub-marginal dealers can operate with a profit. Such practices are prejudicial to the consumer's interest.[41]

The current developments in the automobile industry gradually may eliminate from consideration these reappearing plans to control used-car trade-in allowances. After forty years of rapid and turbulent growth the automobile industry is slowly maturing and stabilizing. Out of the hundreds of companies which attempted to manufacture passenger automobiles, only 11 are producing today. Furthermore, 3 of these 11 produced and sold more than 89 per cent of the passenger cars sold in 1939.[42]

The decreasing number of automobile manufacturers and the greater difficulty in securing responsible dealers—because men with capital are dubious of the future of automobile retailing—may be important factors in bringing about greater integration of the industry, with a resulting effort to curtail used-car losses. The "Big Three"—Ford, Chrysler, and, in particular, General Motors— are expending an appreciable amount of effort to bring about sounder business operations, not from an altruistic purpose but with a full realization that the manufacturers' freedom from governmental bureaucratic control may depend largely upon profitable operations of their body of dealers.

[40] *See* p. 132, *supra*.

[41] Mr. Thomas B. Henry, President of the American Automobile Association, at the annual convention in Cleveland, 1938, said: "The motorists today are up against some practices that are not to their best interests—such things as secret, unlawful dealer combines as to used car allowances." "Unlawful Dealer Combines Are Reported to F.T.C. by A.A.A.," *Motor*, LXX (1938), December, 50.

[42] Computed from data presented in *Automotive Industries*, LXXXII (1940), March 1, 184.

CHAPTER IX

USED-CAR INVENTORIES OF DEALERS

The Problem

The more sagacious automobile dealers, like other good retail merchants, plan their new-car sales in anticipation of what they believe are their sales possibilities, by carefully estimating the number of different models in the various price classifications of the new cars they expect to sell.

Few are the new-car dealers who give the same consideration to planning their stocks of used cars. They take used cars into their inventories indiscriminately, for the most part, without due attention to the immediate demand in their market areas.

Two other factors which aggravate the problem of the dealers in handling their inventories of used cars are: (1) the increasing ratio of used cars sold to new cars sold; and (2) the seasonal lag between peaks of sales of new cars and the active demand for used cars.

Some External Factors Which Aggravate the Problem of Used-Car Inventories

Increasing Ratio of Used-Car Sales to New-Car Sales — In the discussion of the demand for used cars[1] it was pointed out that the ratio of used cars sold to new cars sold had increased from 58.7 per cent in 1919, to 128.6 per cent in 1929, and to 201.0 per cent in 1938.

During the decade 1920 to 1930, when automobile dealers were becoming concerned over the number of used cars which they were forced to add to their stocks, and the increasing per cent of their working capital which was being tied up in used-car stocks, the manufacturers found it relatively easy to secure additional dealers who had the capital necessary to market new cars and carry an inventory of used cars. Since 1930, manufacturers have found it increasingly difficult to attract men with capital into the business of retailing automobiles. The continuing rise in the ratio of used-car sales to new-car sales and the counter trend of fewer new dealers and less capital

[1] *See* Chapter II, Table 3.

available for the retailing of automobiles[2] have forced the manufacturers to focus their attention on used-car stocks and used-car sales, in order to liquidate the capital of their dealers and make it available for the marketing of new cars.

Introduction of New Models in Autumn Season—Another factor which has intensified the problem of used-car inventories, in the past five years, has been the earlier introduction of new-car models. At

TABLE 24—PERCENTAGE DISTRIBUTION OF ANNUAL NEW-CAR SALES FOR THE UNITED STATES, MONTHLY AND QUARTERLY, 1931-1938

(Source: "New-Car Registration in the United States: Production and Registration, by Months, Showing Percentage of Year's Total for Each Month." *Automotive News Almanac for 1939*, Detroit, Michigan, 1939, p. 66.)

Month and Quarter	New Models Introduced in January				New Models Introduced in Fall Months			
	1931	1932	1933	1934	1935	1936	1937	1938
	Per Cent	*Per Cent*	*Per Cent*	*Per Cent*	*Per Cent*	*Per Cent*	*Per Cent*	*Per Cent*
January ...	6.6	8.0	5.3	3.2	5.0	6.3	8.1	7.7
February ..	7.0	7.6	4.7	5.0	6.2	5.2	6.2	6.4
March	10.5	8.4	5.3	9.2	9.5	8.9	10.4	9.6
First Quarter .	24.1	24.0	15.3	17.4	20.7	20.4	24.7	23.7
April	13.9	11.0	8.0	11.8	11.6	11.7	11.1	10.1
May	13.0	12.0	10.7	11.6	10.7	11.5	11.2	9.4
June	10.6	13.6	11.7	11.9	10.2	10.9	10.3	8.3
Second Quarter .	37.5	36.6	30.4	35.3	32.5	34.1	32.6	27.8
July	10.2	9.5	12.4	12.1	10.4	10.5	10.6	7.9
August ...	8.2	8.5	12.0	10.2	8.5	7.7	8.8	6.7
September .	6.5	7.5	10.6	7.8	5.7	6.1	6.8	4.9
Third Quarter .	24.9	25.5	35.0	30.1	24.6	24.3	26.2	19.5
October ..	5.4	5.7	9.1	7.5	5.4	5.0	5.8	6.3
November .	4.0	4.0	6.3	5.7	8.0	6.6	5.6	10.6
December .	4.1	4.2	3.9	4.0	8.6	9.6	5.2	12.1
Fourth Quarter .	13.5	13.9	19.3	17.2	22.0	21.2	16.6	29.0

the request of President Roosevelt, the automobile manufacturers moved the dates of the introduction of new models forward, from the first of each year to the fall of the preceding calendar year. Regularity of employment in the automobile industry was the reason for the request.

From the data available, it appears that the introduction of new models in the fall of the year has accomplished its purpose—better

[2] "One Dealer, Multiple Lines," *Automotive Industries*, LXVI (1932), May 7, 679. Between 1931 and 1932, 20,000 dealers dropped out of automobile retailing, while only 11,000 entered the business in 1932.

monthly distribution of new-car sales, and, consequently, more even production schedules. New-car sales for the four-year period, 1935 through 1938, were more evenly distributed by months and by quarters than in the previous four years (Table 24). Prior to 1935, the industry had one pronounced sales peak—late winter and early spring; under the new policy, a fall peak, as well as a spring sales-peak, was created. The sales volume for new cars in the fall of the year is a result of two factors: (1) the desire of the consumer to enjoy the maximum of subjective value inherent in the possession of a new model; (2) the objective purpose of getting the full benefit of the first year's depreciation by buying the new model as early as possible.

Any attempt to show the percentage distribution by months for annual used-car sales must be based on data for local areas, since compilations of national used-car sales by months are not available. A comparison of the percentage distribution of new- and used-car sales in a local area may indicate the degree of uniformity in active sales periods for both classes of automobiles. Table 25 presents the comparative distributions of new- and used-car sales for Cuyahoga County, Ohio (Cleveland), by months, for the years 1938 and 1939. Chart 4 illustrates the shifts in the sales volume of new and used cars from month to month for 1938 and 1939.

The table and chart following show a high degree of correlation between sales of new and used cars for the first five months of the year; from June until October, the monthly per cent of used cars exceeds slightly the monthly per cent of new ones, but with the advent of the new models in October, the monthly per cent of new-car sales rapidly increases for October, November, and December, while the per cent of used-car sales declines sharply.

Extent of Used-Car Inventories

Chart 5 shows the extent of dealers' stocks of used cars since 1935. In January, 1935, used-car stocks in the hands of new-car dealers totaled 400,000 units, with an all-time high in used-car inventories being reached in January, 1938—800,000 units. This record-breaking inventory was attributable to several causes: (1) The years 1935, 1936, and 1937 had constituted a short period in which the general price level had been rising; (2) enlarged inventories were not regarded unfavorably because prices were strengthening; and (3) by 1936 all large finance companies, with one exception, had launched into the financing of dealers' new- and used-car inventories.[8] The sharp break in the business

[8] Chapter XI, "History of Automobile-Sales Financing," discusses this trend at length.

TABLE 25—SALES OF NEW CARS AND ESTIMATED SALES OF USED CARS BY AUTOMOBILE DEALERS IN CUYAHOGA COUNTY, OHIO, BY MONTHS, 1938 AND 1939

Year and Month	New-Car Sales		Used-Car Sales		Ratio of Used Cars Sold to New Cars Sold *(Per Cent)*
	Number	Per Cent of Total	Number	Per Cent of Total	
1938					
Total	21,256	100	47,475	100	2.2
January	901	4.2	3,312	7.0	3.7
February ...	1,260	5.9	2,948	6.2	2.3
March	2,782	13.1	6,150	13.0	2.2
April	2,316	10.9	4,954	10.4	2.1
May	2,039	9.6	4,062	8.6	2.0
June	1,670	7.9	4,276	9.0	2.6
July	1,374	6.5	4,270	9.0	3.1
August	1,406	6.6	3,880	8.2	2.8
September ..	625	2.9	3,238	6.8	5.2
October	1,398	6.6	3,504	7.4	2.5
November ..	2,734	12.9	3,626	7.6	1.3
December ..	2,751	12.9	3,255	6.9	1.2
Average ..	1,771	—	3,956	—	—
1939					
Total	34,274	100.	58,732	100.	1.7
January	2,069	6.0	3,250	5.5	1.6
February ...	2,052	6.0	3,160	5.4	1.5
March	4,162	12.1	7,246	12.3	1.7
April	3,457	10.1	5,747	9.8	1.7
May	3,691	11.8	5,918	10.1	1.6
June	3,206	9.4	5,755	9.8	1.8
July	2,662	7.8	5,190	8.8	1.9
August	2,303	6.7	5,012	8.5	2.2
September ..	1,662	4.8	3,870	6.6	2.3
October	2,838	8.3	4,940	8.4	1.7
November ..	2,854	8.3	4,509	7.7	1.6
December ..	3,318	9.7	4,135	7.0	1.2
Average ..	2,856	—	4,894	—	—

Source: New-car sales for Cuyahoga County, which were obtained from the Cleveland Automobile Trade Association, could be used with adjustments. Total used-car transactions, obtained from the same source, amounted to 132,242 cars for 1938 and 163,598 cars for 1939; but these figures were far too inflated to be of any value without modification. They included: (1) Trade-ins—sales to dealers as part payment on another car; (2) casual sales—sales between individuals; (3) issuance of Ohio certificates of title to former non-residents now registering their cars in Ohio.

Since June, 1939, the Cleveland Automotive Trade Association has reported each ten days the number of transactions under each classification. The experience of the last seven months of 1939 indicates the relative division of sales as follows:

Type of Used-Car Sale	*Number*	*Per Cent of Total*	
Used-car sales by new-car dealers	26,096	27.4	
Used-car sales by used-car dealers	8,131	8.5	35.9
Used-car casual sales	37,717		39.6
Used-car trade-ins by individuals to dealers	23,289		24.5
Total	95,233		100.

By taking 35.9 per cent (the per cent of used-car sales made by new- and used-car dealers) of the total monthly used-car-sales data obtained by the Cleveland Automotive Trade Association from the County Clerk's office, the number of used cars sold by dealers each month can be estimated.

CHART 4 — SALES OF NEW CARS AND ESTIMATED SALES OF USED CARS BY AUTOMOBILE DEALERS IN CUYAHOGA COUNTY, OHIO, 1938-1939

(Source: Table 25)

(Percentage Distribution of Annual Sales by Months)

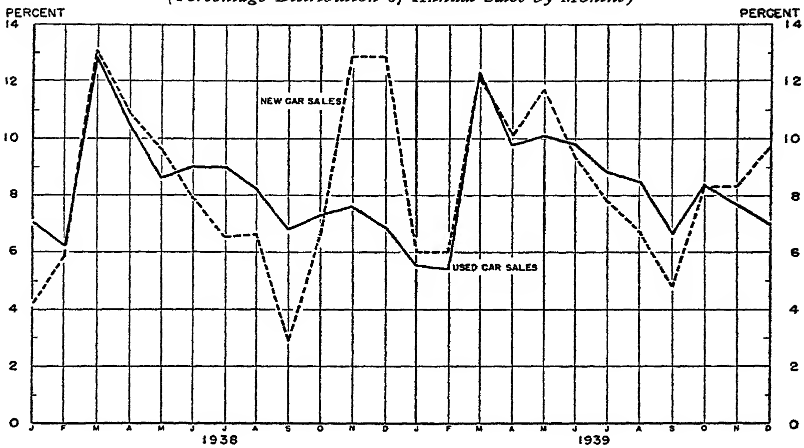
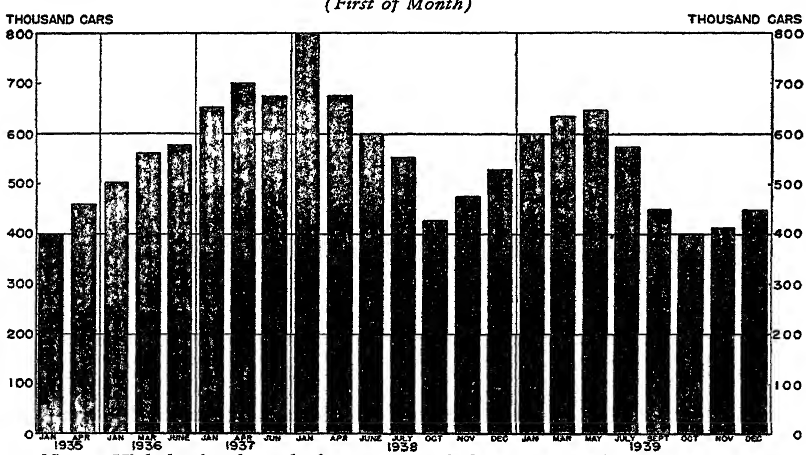


CHART 5 — USED-CAR STOCKS IN HANDS OF NEW-CAR DEALERS, 1935-1939

(Source: Standard Statistics Company, Inc., "Business Trends and Projections," *Graphic Forecast Section,* Revised to December 5, 1939, p. 52.)

(First of Month)



NOTE: High levels of purchasing power and the concentrated efforts in the used-car market of Chrysler dealers during the period while that company was closed by the strike caused used-car sales to rise sharply. Hence, used-car stocks were exceptionally low at the end of 1939, which was favorable to the outlook for sales of new cars (December, 1939, used-car stocks, estimated).

upturn in September, 1937, which affected most seriously wage earners earning $2,000 or less—from which group come used-car buyers—found dealers entering the fall and winter months with slow-moving used-car stocks, which were further augmented by the introduction and sale of the 1938 models of new cars in the fall of 1937.

In December, 1939, used-car stocks were estimated to be slightly in excess of 400,000 units,[4] approximately one-half as large as those of January, 1938. This indicates that the situation has been improved, but still is not satisfactory from the point of view of either the dealers or the manufacturers.

The large number of new-car sales in the fall of the year, which involve trade-ins in at least 90 per cent of the sales, accompanied by the seasonal decline in used-car sales, increases used-car inventories. The occurrence of swollen used-car inventories, at the time of least activity in used-car sales, and during the months when the warehousing problem is difficult and expensive to handle, has brought agitation from dealers for relief. The situation was so acute in the fall and winter of 1937 and 1938[5] that the dealers turned to their national organization for help; in the spring of 1938, the Board of Directors of the National Automobile Dealers Association adopted a resolution at the annual meeting of the association, addressed to manufacturers, requesting that the industry return to the practice of announcing new models as of the first of each year.[6] The reasons advanced by automobile dealers in favor of the January date were as follows: (1) that the used-car burden caused by the fall announcement places a severe strain upon the financial resources of the dealer; (2) that they are unable to buy or trade in used cars at prices low enough to permit them to hold such cars 90 to 120 days and then recover their costs; (3) that a large portion of their sales following the introduction of new models is made to annual style buyers involving the acceptance of one-year-old cars, and that depreciation on these mounts rapidly; (4) that they are frequently compelled to wholesale their used cars during the winter months at sacrifice prices resulting in large losses; and (5) that the expense of warehousing and maintaining large used-car inventories requires a heavy investment in overhead, which also contributes to losses.

No action being forthcoming, this request was repeated in a resolution approved by the dealers in the annual convention of the Na-

[4] *See* Note, Chart 5.
[5] *See* Table 24, *supra*.
[6] National Automobile Dealers Association, *Bulletin*, February, 1939, p. 2.

tional Automobile Dealers Association held in Washington, D. C., January, 1940.[7]

There is little liklihood that the manufacturers will return to the introduction of new models at the beginning of the year. The factories have secured production advantages from the earlier release of their new models, and have benefited automobile factory workers through this move. These two important advantages probably will preclude any return to the first of the year.

The necessity for a solution of this problem, or for some measures to alleviate the difficulties experienced by dealers, has prompted manufacturers to take steps in several directions, has focused the attention of local trade associations on remedies, and has stimulated dealers to experiment with means of controlling inventories.

How the Automobile Industry Has Attacked the Problem of Dealers' Used-Car Inventories

Manufacturers' Efforts

Information on Dealers' Stocks—Late in 1925, the general sales committee of General Motors Corporation discussed the subject of its dealers' used-car inventories, and the minutes of its meeting recorded the handling of the following questions:

> Should reliable reports be obtained periodically from the dealers of their stocks of used cars? If so, what use should be made of such reports?
>
> It was generally agreed that such reports would be very desirable because they would afford a good index to the trend of the automobile demand. For example, if there were a business slump approaching, it would probably manifest itself through this data on used car stocks.
>
> It was pointed out, however, that such reports, to be of greatest value, should be supplemented by reports covering the movement of used cars at retail. It was agreed that all divisions should include, with their regular periodical reports, reports of used-car stocks on hand and sales of used cars during each period.[8]

Subsequently, other manufacturers asked their dealers to supply similar information. At the present time, automobile manufacturers request their dealers to submit reports on used-car stocks and used-car sales every 7 or 10 days.[9]

Since 1935, these reports have been assembled, and the composite data on used-car inventories for all manufacturers have been released by Standard Statistics Company, Incorporated.[10] From this source it

[7] *Ibid.*, February, 1940, p. 6.
[8] Federal Trade Commission, *op. cit.*, pp. 215-6.
[9] *Automobile Facts*, March, 1939, p. 12.
[10] *Business Trends and Projections.*

is possible to obtain a national total of the number of used cars in the hands of new-car dealers from time to time. Chart 5 indicates the increasing regularity with which data are being made available.

This information serves the manufacturers as an index of the sales activity in the used-car market and the readiness of the dealers to move new cars. An example of the manner in which one manufacturer—the Chevrolet Motor Division of General Motors Corporation—has employed these facts to the advantage of the dealer was described to the writer in the spring of 1939. In May of that year, the Chevrolet dealers throughout the country turned over their used-car inventories in 30 days, on the average. The sales department was working through its regional sales managers to increase the turnover of used cars to an average of once every 25 days.[11]

Other Measures of Assistance—Prior to 1935, automobile manufacturers limited their aid to offering counsel in management problems, and devising merchandising schemes such as the R and G Ford Plan, the O K Chevrolet Plan, and others.[12] Since 1935, manufacturers have broadened their attack on the dealers' problem by preparing used-car merchandising manuals for their dealers, and allocating a portion of their total advertising appropriations to the national and local advertising of used cars.[13]

Efforts of Dealers' Associations

Information on Condition of Local Inventories—The dealers and the forward-looking trade association executives acknowledge that the trend of an increased ratio of used cars to new cars cannot be reversed, and they are of the opinion that there is slight likelihood of manufacturers adjusting their new-car production schedules to ameliorate the problem of the dealers' used-car inventories.

A pioneering effort to supply current information on the activity in a local used-car market, and on used-car stocks, was made in 1936 by the Washington (D. C.) Automotive Trade Association, which developed a system for monthly reports from its dealers to show the

[11] The Assistant General Sales Manager in charge of used-car sales for the eastern half of the United States, in conversation with the writer, Detroit, May 9, 1939. It was not ascertained whether this turnover was unit volume or dollar volume, but the writer presumes that the unit turnover was being discussed.

[12] *See* page 154, *infra*, for a discussion of reconditioning plans.

[13] Chevrolet Motor Division inaugurated this practice in 1936, followed shortly by Ford Motor Company and others. *See* Chapter X, p. 157.

In 1928, General Motors engaged in national advertising of their dealers as quality used-car dealers, but soon withdrew this assistance. Federal Trade Commission, *op. cit.*, p. 219.

TABLE 26—USED-CAR SALES FOR JANUARY, 1940, AND USED-CAR INVENTORY ON FEBRUARY 1, 1940, BY MODEL YEAR, FOR 247 COOK COUNTY AUTOMOBILE OUTLETS

(Source: Monthly Report of the Chicago Automobile Trade Association, *Used Car Sales and Inventories.*)

	1931 and Older		1932		1933		1934		1935		1936		1937		1938		1939		Totals by Make		Per Cent of Total, by Make	
Make of Car	Sales (*Jan., 1940*)	Inventory (*Feb. 1, 1940*)	Sales (*Jan., 1940*)	Inventory (*Feb. 1, 1940*)	Sales (*Jan., 1940*)	Inventory (*Feb. 1, 1940*)	Sales (*Jan., 1940*)	Inventory (*Feb. 1, 1940*)	Sales (*Jan., 1940*)	Inventory (*Feb. 1, 1940*)	Sales (*Jan., 1940*)	Inventory (*Feb. 1, 1940*)	Sales (*Jan., 1940*)	Inventory (*Feb. 1, 1940*)	Sales (*Jan., 1940*)	Inventory (*Feb. 1, 1940*)	Sales (*Jan., 1940*)	Inventory (*Feb. 1, 1940*)	Sales (*Jan., 1940*)	Inventory (*Feb. 1, 1940*)	Sales (*Jan. 1940*)	Inventory (*Feb. 1, 1940*)
Buick	145	113	20	39	22	35	34	77[a]	25	54[a]	106	184	114	263[a]	110	199	68	116	644	1,080	9.1	8.8
Cadillac	22	13	4	2	3	3	15	10	4	9[a]	14	29[a]	12	31[a]	6	28[c]	10	15	90	140	1.3	1.1
Chevrolet	132	145	50	55	86	74	67	95	91	120	156	287	162	370[a]	155	393[a]	75	222[a]	974	1,761	13.8	14.4
Chrysler	39	44	9	20[a]	16	28	11	21	12	29[a]	24	70[a]	35	147[c]	13	55[c]	12	17	171	431	2.4	3.5
De Soto	18	12	6	16[a]	14	24	11	11	14	16	23	46	32	104[b]	26	56[a]	19	20	163	305	2.3	2.5
Dodge	40	34	13	20	41	47	39	62	66	80	84	210[a]	101	241[a]	53	144[a]	41	61	478	899	6.8	7.3
Ford	272	187	51	94	68	102	145	192	221	324	238	434	268	686[a]	142	381[a]	66	154[a]	1,471	2,554	20.8	20.9
Graham	11	24[a]	5	3	7	6	4	10[a]	1	6[c]	6	11	5	14[a]	2	2	5	1	46	77	.7	.6
Hudson	14	10	1	10[c]	0	3[b]	7	18[a]	6	25[c]	15	40[a]	7	30[c]	9	30[b]	8	20[a]	67	186	.9	1.5
Hupmobile	22	17	6	4	2	2	3	5	0	2[a]	0	3[b]	0	0	1	1	1	0	35	34	.5	.3
LaSalle	20	14	4	3	3	3	3	7[a]	4	11[a]	11	17	26	67[a]	10	53[c]	13	23	94	198	1.3	1.6
Lincoln	6	3	3	4	3	6	3	6	1	5[a]	1	3[a]	0	4[c]	1	4[b]	0	1	18	36	.3	.3
Lincoln-Zephyr ..	..	..	..	..	..	..	..	..	..	..	8	21[a]	14	50[b]	8	62[c]	6	14[a]	36	147	.5	1.2
Mercury	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	25	28	25	28	.4	.2
Nash	48	56	12	38[b]	7	14	4	17[a]	7	16[a]	15	41[a]	18	42[a]	9	13	7	10	127	247	1.8	2.1
Nash-Lafayette ..	..	..	..	..	..	..	0	5[c]	0	9[c]	5	14[a]	20	57[a]	12	17	10	7	47	109	.7	.9
Oldsmobile	45	52	10	21[a]	12	36[a]	34	46	62	80	95	172	85	208[a]	48	147[b]	50	45	441	807	6.2	6.6
Packard	35	15	10	10	10	8	14	15	24	39	51	97	90	209[a]	61	83	22	31	317	507	4.5	4.1
Plymouth	17	18	33	50	65	88	101	85	105	95	165	227	147	276	84	203[a]	80	120	797	1,162	11.3	9.5
Pontiac	61	61	19	21	32	35	41	66	48	67	72	132	113	219	74	108	57	68	517	777	7.3	6.4
Studebaker	50	39	8	10	12	17	23	41	22	24	32	40	57	80	40	42	14	20	258	313	3.7	2.5
Terraplane	..	..	1	13[c]	9	20[a]	5	22[c]	11	30[a]	24	54[a]	26	67[a]	6	14[a]	1	0	83	220	1.2	1.8
Willys	16	12	4	3	1	7[c]	2	0	1	2	3	6	15	34[a]	10	14	1	3[a]	53	81	.7	.7
Miscellaneous ...	79	77	9	19[a]	4	18[c]	2	9[a]	7	10	5	12[a]	1	1	0	2[a]	1	0	108	148	1.5	1.2
Total, by Model Year	1,092	946	278	455	417	576	568	820	732	1,053	1,153	2,150	1,348	3,200	880	2,051	592	996	7,060	12,247		
Percentage, By Model Year	15.5%	7.7%	3.9%	3.7%	5.9%	4.7%	8.0%	6.7%	10.4%	8.6%	16.3%	17.6%	19.1%	26.1%	12.5%	16.8%	8.4%	8.1%	..	..	100%	100%

[a] More than a 60-day stock, based on January sales.
[b] More than a 90-day stock, based on January sales.
[c] More than a 120-day stock, based on January sales.

BASED ON JANUARY SALES, FEBRUARY 1st INVENTORY SHOWS A 52-DAY SUPPLY OF USED CARS ON HAND.

sales of used cars by make and model, and the remaining inventory of each make and model on hand at the end of each month.[14] Since this plan has been functioning in Washington, four other local associations have furnished their dealers with such reports; namely, the associations in Chicago, Detroit, Kansas City, and Columbus (Ohio).

The Chicago monthly report was inaugurated in February, 1939. These reports depend upon the voluntary cooperation of the new-car dealers and a few exclusive used-car dealers in Cook County. Each month, the cooperating dealers fill out a detailed report showing the make and model of each car in inventory at the close of the month. The first report included 207 dealers, the lowest number of dealers reporting in any month, and by February, 1940, 247 dealers filed reports for January, 1940.

Table 26 is an example of the reports compiled by the Chicago Automobile Trade Association. It lists 23 different makes of cars and a 24th classification which includes makes and models no longer manufactured. The number of cars sold during the previous month, January, 1940, and the number of cars on hand February 1, 1940, are given; special notice is directed to those makes of cars for which an excessive inventory seems to exist. The purpose of these notations is to indicate that the current asking prices for such makes and models are too high, and if the dealer plans to accept them in trade, he should do so only at a bargain price.

Table 27, which is a composite of the 12 monthly reports from February, 1939, through January, 1940, furnishes a basis for arriving at the rate of turnover of the number of used cars handled, and an estimated rate of turnover of dealers' capital invested in used cars.

From the data presented, it is possible to compute the turnover in used cars for the year and for each of the 12 months, and the turnover of units for each of the model years.

Used-car stocks turned over every 37.8 days, on the average, or a physical turnover of 9.5 times during the year. Further examination, however, reveals that cars six years old or older, representing 26.7 per cent of all used cars sold, were turned every 23.1 days, while cars two years old, representing 18.0 per cent of the used-car sales, were turned every 50.4 days, thus remaining in the stock of dealers more than twice as long as the older cars.

The range in rates of turnover for the various model years is most significant. As the car increases in age, its price declines, and it is more easily disposed of. Hence, its turnover increases. This fact is of

[14] *American Finance News,* July 31, 1936, p. 3.

TABLE 27—USED-CAR SALES AND USED-CAR INVENTORIES OF DEALERS IN COOK COUNTY, ILLINOIS, REPORTING MONTHLY TO THE CHICAGO AUTOMOBILE TRADE ASSOCIATION, FEBRUARY, 1939, THROUGH JANUARY, 1940, BY AGE OF CARS

(Source: Compiled from monthly reports published by Chicago Automobile Trade Association. *See* Table 26 for sample report.)

Month	AGE OF CARS																Number of days' supply[a] on hand
	Over 6 Years		6 Years		5 Years		4 Years		3 Years		2 Years		1 Year		Total		
	Sales	Invt.	Sales	Invt.	Sales	Invt.	Sales	Invt.	Sales	Invt.	Sales	Invt.	Sales	Invt.	Sales	Invt	
1939																	
February .	1,225	1,509	298	491	432	721	536	947	808	1,846	945	2,582	275	522	4,519	8,618	57.2
March ...	2,115	1,535	599	559	843	822	998	1,038	1,558	1,939	1,971	2,885	511	762	8,595	9,540	33.3
April	2,012	1,488	485	528	677	671	909	979	1,286	1,861	1,531	2,642	480	837	7,380	9,006	36.6
May	2,294	1,730	593	550	806	754	1,089	1,178	1,581	2,043	1,865	2,757	600	976	8,828	9,988	33.9
June	2,182	1,416	567	454	740	668	1,020	860	1,514	1,575	1,849	2,174	607	772	8,479	7,919	28.0
July	1,842	1,077	485	349	609	559	831	789	1,095	1,302	1,348	1,804	474	718	6,684	6,598	29.6
August ..	1,530	1,029	412	343	582	505	703	745	1,046	1,238	1,239	1,720	435	724	5,947	6,304	31.8
September	1,455	949	382	358	517	484	661	688	885	1,210	1,108	1,753	479	821	5,487	6,263	34.2
October .	2,006	1,291	520	510	687	671	983	1,408	1,179	2,090	636	1,158	311	325	6,322	7,443	35.4
November	1,875	1,451	578	601	679	835	1,136	1,671	1,395	2,483	757	1,613	453	575	6,873	9,229	40.3
December	1,781	1,602	519	709	635	988	1,044	1,959	1,304	2,936	772	1,938	468	863	6,523	10,995	50.6
1940																	
January ..	1,787	1,977	568	820	732	1,053	1,153	2,150	1,348	3,200	880	2,051	592	996	7,060	12,247	52.0
Total ..	22,104	17,054	6,006	6,272	7,939	8,731	11,063	14,412	14,999	23,723	14,901	25,077	5,685	8,891	82,697	104,150	37.8
Percentage Distribution of Cars Sold, by Age	26.7		7.3		9.6		13.4		18.1		18.0		6.9		100		
Average Turnover by Age Groups[b]	23.1 days		31.2 days		33.0 days		39.0 days		47.4 days		50.4 days		46.9 days				

[a] Used-car inventory on hand based on previous month's sales; inventory figures are as of the first day of the succeeding month.
[b] Computed by dividing inventory by sales multiplied by 30 days.

double import: (1) It indicates that the more active market is in the older and lower-priced cars; (2) it clearly points out that a measure of physical or unit turnover fails to reveal the turnover in the capital which dealers have invested in used-car stocks.

The estimated turnover of funds absorbed by used-car stocks can be calculated. As pointed out in Chapter VII, the used-car inventories of new-car dealers represent merchandise purchased at approximately the full retail price of used cars; consequently, the sales price of used cars can be accepted as the cost of the merchandise for inventory. In Chapter V (Table 13), a percentage scale was developed for residual values in used cars one to six years old, based on selected classes of new-car prices. Since the scale for the lowest new-car price classification is applicable to approximately 60 per cent of all new-car sales, it best serves to weight the cars of the various model years by their relative values. The weights used, per cent of average new-car price remaining, by models of cars, were:

Car Age (Year)	*Per Cent of Average New-Car Price*[15] *(Per Cent)*
1	60
2	50
3	40
4	30
5	22
6	17
7 or more	8

By weighting the units in inventories in this manner, the turnover of used-car investments was calculated to be 43.7 days or 8.2 times annually, instead of 37.8 days or 9.5 times annually as indicated by the turnover of units.

The physical turn is important, but the rate of turnover in the value of the dealers' used-car inventories is of greater significance, because it indicates that the lagging or slow turnover of the higher-priced, recent models is the major stumbling block in sales, and impedes the turnover of the dealers' used-car stocks.

Efforts of Dealers

A balanced inventory of used cars involves, besides a control of the quantity of used cars, a selection of those cars on the basis of the demand in the local market for certain makes, year models, and price classes. A detailed plan of stock control cannot be formulated without

giving serious consideration to local preferences or prejudices expressed by consumers with reference to makes of cars. Moreover, the elasticity in sales of automobiles, both new and used, compels dealers to be particularly alert to changes in local business trends.

Two methods exist by which the new-car dealer can attempt to achieve a balanced inventory of used cars: (1) by negotiating sales of new cars with his used-car-inventory needs in mind; (2) by selling and buying used cars in the wholesale market.

Directing New-Car Sales towards Desirable Trade-ins — The degree to which a dealer's business is profitable fluctuates directly with the ability of the dealer to dispose of his used-car stocks rapidly, with the least possible sales costs and loss through obsolescence. Hence, many new-car dealers are consciously guiding their new-car sales efforts towards deals which involve used cars that will strengthen their used-car inventories.

A concise example of the use of a plan made by one dealer in Dodge and Plymouth cars, W. P. Hamblin, Incorporated, Providence, Rhode Island, shows the steps by which the cars needed to fill out the used-car inventory are added, while those too well stocked or not popular are guarded against. This dealer plans his new-car sales very carefully, and then systematically estimates his used-car inventory needs for each season of the year by basing it on the previous year's demands, tempered by current market conditions. By directing new-car sales efforts into channels which will result in the kind of trade-ins he wants, he can apply the department-store principle of buying to the acquisition of his used-car stock. His new-car sales force is informed exactly of the cars which are wanted for the used-car department, and the prices at which these cars can be accepted. The dealer is "open to buy" certain makes and models of used cars at a specified price.

Chart 6 outlines this dealer's planned inventory for the fall and winter of 1939-1940. It shows what the dealer has in stock on September 27, 1939, and what he is open to buy. For each make and year model of car listed on the chart, three items of information are available. The "cash-value purchase price" and the maximum number of units of that make and model to be carried appear in the left half of each block; the number of units in inventory on September 27, 1939, appear in ink in the right half of the block, and, in the instances where units in stock exceed the number of units scheduled, the figure in ink is circled as a warning.

Chart 6—Plan of Model Stock for Used Cars,[a] September 27, 1939

PASSENGER CARS

1940 Fall and Winter Stock Sheet Cash Purchase Value Prices

Model Year	Total	Dodge	Plymouth	Chevrolet	Ford	Miscel-laneous
1939	8 *0*	$535 2	$510 2	$510 2	$470 1	1
1938	19 *7*	$420 6 *6*	$385 6 *1*	$385 3	$345 2	2
1937	21 *9*	$320 6 *3*	$285 6 *2*	$285 4 *2*	$245 2	3 *2*
1936	20 *6*	$240 6 *4*	$215 6 *1*	$215 4 *1*	$175 2	2
1935	13 *13*	$175 4	$150 3 *2*	$150 3 *2*	$115 1 *3*	2 *6*
1934	9 *6*	$100 3	$ 85 2 *1*	$ 85 1 *3*	$ 50 1	2 *2*
1933	9 *4*	$ 50 3	$ 40 2 *1*	$ 40 1	$ 15 1	2 *3*
1932	5 *2*	$ 15 2	$ 0 2	*1*		1 *1*
TOTAL	104 *47*	32 *13*	29 *8*	18 *9*	10 *3*	15 *14*

(A). Above cash purchase value prices are for Deluxe four-door touring sedans in good average condition. *Deduction* must be made from above prices for reconditioning if used car is *below average good condition* for its year.

(B). If used car is not a four-door touring, deduct from above prices the *difference* in finance value between the model traded and a Deluxe four-door touring as shown by the *Boston Book*. Roughly 15 per cent less for Coupe, 10 per cent for R. S. Coupes, 5 per cent for Touring Coaches. Deduct $25 if model is not of the Deluxe line.

(C). If maximum number is in stock, deduct 10 per cent from above cash purchase value prices.

(D). To the cash purchase price as determined by (A), (B), and (C) above, add the following amount to obtain maximum allowance:

If new car sold is	*4-Door*	*2-Door*	*RS-Coupe*	*Bus. Coupe*
Dodge Deluxe	$140	$130	$130	$115
Dodge Special	130	120	..	105
Plymouth Deluxe	90	85	80	75
Roadking	80	70	..	60

Also, *may* add 50 per cent of gross profit on radios and heaters installed on new cars.

(E). The above appraisals represent the *maximum* allowance, and must not be exceeded in any instance regardless of ill will towards competitor or good will towards customer. The caliber of salesmanship will be judged and salesmen's bonuses paid on the extent of allowances which are less than the above maximum *prices*.

[a] W. P. Hamblin, Incorporated, Providence, Rhode Island, September 27, 1939. (Source: Edward Payton, National Consultant in sales and management for

It should be pointed out that the prices contained in the chart are cash-value prices. These prices and the instructions in paragraphs (A) to (E) guide the dealer towards the maintenance of a well-balanced inventory with respect to several makes of cars and to various model years. Several desirable results may be obtained:

1. When the maximum number of cars is in stock, more cars may be added; but if so, they come in at a reduced price.

2. Allowances on trade-ins vary according to the purchase price of the new car involved in the transaction. This provision is similar to the one proposed for the English motor trade in 1938.[16]

3. Maximum allowances are not necessarily average allowances because bonuses are paid according to the amount by which allowances are below the maximum amounts permitted.

In 1938, the Hamblin inventory schedule called for a maximum supply of 86 cars for the fall season in consideration of the depressed business conditions that year. This was increased to 104 for the fall of 1939 in anticipation of a more active automobile market. This dealer has been using the plan since 1937, and always with profit.[17] Also, the plan has been incorporated in the Payton Service.

An earlier and less complex plan is that recommended by Mr. Paul G. Hoffman, president of the Studebaker Corporation. He advocates the limiting of used-car stocks to a maximum of 30 days' supply, and suggests that signals be placed on cars as they enter a stock so that the length of time they are in the dealer's inventory can be easily ascertained without reference to office records. Mr. Hoffman emphasized the importance of a rapid turnover of all cars by estimating that the daily cost to a dealer of keeping each used car in stock is between \$1.00 and \$1.25.[18]

Wholesale Market Operations—It has been customary for new-car dealers to eliminate from their stocks either an excessive number of cars or cars in doubtful running condition, by wholesaling them to exclusive used-car dealers. This practice has had the blessing of the automobile manufacturers, for it has helped to liquidate the dealers' inventories and has released money and sales effort for new cars.

When the business recession of 1938 seriously curtailed the sales of new and used cars, distressed dealers disposed of their stocks of used cars in the wholesale market at attractive prices. Some new-car

[16] *See* Chapter VIII, p. 128.
[17] Edward Payton, in conversation with the writer.
[18] Paul G. Hoffman and James H. Greene, *Marketing of Used Cars* (New York, N. Y., 1929), pp. 155-7.

dealers took advantage of this situation to increase their used-car inventories at prices which would yield profits. The objections of the manufacturers to this line of activity are voiced in a letter addressed to his field representatives by Mr. J. W. McLaughlin, Used-Car Manager of the Dodge Motor Division of the Chrysler Corporation.

> In an analysis of used car sales and stocks on July 8 (1938) it was shown that in 1938 Dodge dealers sold 2.22 used cars to each new car sold. In 1936 and 1937 our experience showed that it took 1.6 used car sales to liquidate each new car trade.
>
> This indicates that our dealers in the first six months have sold 61,168 more used cars than necessary to liquidate the new cars sold. This figure takes into account the inventory reduction accomplished, but no allowance is made for a hypothetical increase in trading ratio necessary to liquidate in 1938. This would undoubtedly reduce the figure, but still leave it large enough to merit serious attention . . . .
>
> If the excess 60,000 used car sales made by our dealers in 1938 were devoted to liquidating new car sales, instead of bought used cars; then at a trading ratio of even two to one, they would have accounted for 30,000 additional new Dodge or Plymouth sales.
>
> While this figure may not be exact, we are beyond doubt losing much business because dealers are looking elsewhere for profit than to the sale of new Dodge or Plymouth cars . . . .
>
> This type of operation almost invariably results in low new car performance. Dabbling in outside used car purchases has a very detrimental influence on a dealer's appraisal policy in new car deals. If a used car sells for $500 a dealer can seldom trade it for less than that figure from a customer, and he generally allows this amount cheerfully and makes a satisfactory profit on the deal, and incidentally builds future business and service profits.
>
> The purchase of a few of the same model at $350 or less, however, makes him critical of appraisals at the new car trading level, causes him to lose sight of the new car over-all picture, and soon his appraisals become non-competitive and he loses profitable new car business. He takes only such new car business as he can secure at low appraisals and depends on outside used car purchases and sales to make up the lost new car profits.[19]

Just how much credence can be given to this claim is open to question. Without doubt, new-car dealers continually augment their used-car stocks when exceptional buys present themselves, or when their stocks are depleted of certain popular models, but no evidence can be found that this is a regular practice among dealers.

[19] Secured by the writer in an interview with Mr. McLaughlin, Detroit, Michigan, May, 1939.

The conflict between the interests of manufacturers and dealers is well illustrated in this letter.

Reconditioning of Used Cars—Used cars accepted by a dealer as trade-ins can be divided into three classifications: (1) junkers—cars which can be sold only for their scrap value; (2) cars of an age and condition which do not warrant reconditioning expense and which are to be sold "as is"; (3) cars of an age and condition which warrant their being reconditioned.

Cars earmarked for junking need no further consideration. Cars to be sold "as is" represent either cars four years old or older, whose current market values would not warrant much outlay for reconditioning, cars which are not popular in the local market, or newer models which have been badly abused and are of questionable value. These cars may be kept in stock and sold to consumers "as is," or wholesaled to exclusive used-car dealers.

The selection of cars to be reconditioned, however, requires the combined judgment of the service department and the used-car merchandising department. The service department is interested in the excellence of its work, and costs are a secondary consideration; the used-car merchandising department, in order to operate successfully, must weigh the reconditioning expense in the light of the car's expected resale price. It is at this point that the dealer must determine his used-car policy. Shall he regard the sale of a used car as a non-repeating sale, without giving consideration to consumer goodwill, or shall he adopt a policy of creating goodwill in used-car consumers in the hope of prolonged patronage?

Costs of Used-Car Reconditioning—Costs of used-car reconditioning vary with the character of the used-car stock. New-car dealers who handle the higher-priced lines of new cars usually observe higher standards in the reconditioning of the better grade of used cars which they accept in trade.[20]

In a survey conducted by the National Automobile Dealers Association in 1935, dealers reported that they spent 8.5 per cent of their used-car sales receipts for reconditioning.[21] Ford dealers reported to the Ford Company that their average cost of reconditioning used cars was between $24 and $26 per car.[22]

[20] One Cleveland dealer stated in 1939 that he spent $39 per used car accepted in trade.

[21] National Automobile Dealers Association, *Bulletin*, February 25, 1935, p. 5.

[22] Interview with the executive in charge of used-car sales, Ford Motor Company, Detroit, Michigan, May, 1939.

Manufacturers' Interest in Reconditioning of Used Cars—The interest shown by manufacturers in the problem of reconditioning might be referred to as "enlightened self-interest." One of the major handicaps in the selling of used cars is the consumers' skeptical attitude towards these cars. The source of the continued demand for the product is the inability of two-thirds of the car owners to buy a new car.

Collectively, manufacturers realize that dealers' used-car inventories must be in a continual process of liquidation in order not to impair new-car sales. Individually, each manufacturer wishes to free his dealers' capital so that they are in a better position than their competitors. Practically all manufacturers have developed merchandising campaigns for their own dealers' reconditioned cars.[23] The two most widely publicized plans are the Ford R and G plan and the OK plan of the Chevrolet Division.

The Ford R and G Plan—Several years ago, the Ford Motor Company inaugurated the slogan "Renewed and Guaranteed" for used cars. Its program is built around two objectives: (1) to improve the merchandising of used cars; and (2) to establish consumer confidence in the used cars handled by Ford dealers. Cars one to three years old which have been properly reconditioned are sold with a used-car purchase certificate which assures the buyer that:

> Dealer agrees, for a period of..days[24] after above delivery date, to refund the entire purchase price, including any trade-in accepted as part payment, or the allowance price thereof, if the trade-in has been sold, should the above described unit prove unsatisfactory. Dealer also agrees, to correct at dealer's expense any mechanical condition, that may develop within 10 days after above delivery date, which might hinder the normal operation of the above described unit, provided this condition is not caused by accident, neglect or abuse, such mechanical corrections to be made in Dealer's Service Department.

Cars more than three years old are sold with used-car 50-50 guarantee for 30 days, the customer to pay for 50 per cent of the labor and 50 per cent of the list price of material charges in case of mechanical defects.

The effectiveness of this program in operation, however, rests with the fieldmen of the company, who are instructed to make periodic checks of dealers' cars marked "R and G"; but dealers are not penalized for their failure to observe regulations.

[23] Examples are: "Gold Seal," of Buick; "Triple Safety Seal," of Nash; Hudson's "Personally Endorsed"; Chrysler's "Moneyback"; "Dependable Seal," of Dodge; Ford's, "R and G"; "OK Chevrolet"; and Studebaker's, "Certified Used Cars."

[24] The number of days is to be filled in by the dealer—usually ten days.

Chevrolet OK or Red-Tag Plan—The Chevrolet reconditioning plan centers around the use of a red tag. Chevrolet dealers who accept the plan receive a certificate of compliance prescribing the dealer's requirements. Dealers who agree to recondition their used cars in the following manner may attach the tag to their reconditioned cars. Twenty major parts of the automobile must be checked and placed in good condition—radiator, motor, clutch, transmission, rear axle, steering, brakes, starter, lighting, ignition, horn, battery, body, glass, fenders, finish, tires, upholstery, floor mats, and lubrication. This tag must be signed by the dealer. The tag is copyrighted both as to form and style. While the contents are not copyrighted, it would be practically impossible for anyone to imitate the tag successfully.

Periodic inspection of the dealer's use of this program is made, and if serious violation is discovered, the permission to operate under this program can be withdrawn.[25] A check on the opinions of several Cleveland dealers brought forth the feeling among salesmen and dealers that numerous dealers abused the plan, which reduced the effectiveness of the program, and that the factory was lax in its supervision. The plans sponsored by other manufacturers are similar in intent and operation to the two plans just described.

In the not-so-distant past, dealers were known to remedy noisy bushings with sand; a noisy transmission, with sawdust or oatmeal; and a rear-end hum, with cork. These flagrant instances of defrauding are not tolerated today, but practices which are only slightly less glaring, such as withholding the name of the previous owner of the car, or the fact that the car had been used for business or as a taxicab, and the tendency for practically all dealers to change the speedometer readings, indicate that deception is still prevalent.

The control of inventory stocks and the reconditioning of used cars are but two steps in the profitable operation of a used-car department. The subsequent steps of advertising and selling the stock to the consumer are considered in Chapter X.

[25] The writer was unable to determine how many dealers, having been given this privilege, were ever suspended.

CHAPTER X

THE SALES PROMOTION OF USED AUTOMOBILES

A study of the problem of sales promotion and selling of used ca involves an analysis of (1) the selection of locations for sales outlet (2) display of merchandise, (3) policies in price marking, (4) adve tising media used, (5) the nature of advertising appeals, (6) adve tising costs, (7) the sales organizations, (8) the character of the sal effort, and (9) the compensation of salesmen.

Sales Promotion and Selling of Used Cars By Dealers

Location of Sales Outlets of New- and Used-Car Dealers

The problem of the location of an automobile sales agency withi a community varies with the size and character of the communit and with the type of sales plan of the dealer. In the smaller con munities, a location reasonably well centralized, with adequate spac for new- and used-car display rooms and for service facilities, is usuall satisfactory. Locations in the larger metropolitan areas are not dete mined so simply. In the early days of automobile retailing, after deale had located their establishments in the hearts of the primary shoppin districts, the necessity of providing service facilities for consumer and the advent of the practice of accepting used cars in trade, graduall pushed dealers to the edges of the primary shopping areas, or int secondary shopping areas.[1]

At the present time, when a new-car dealer chooses a location, h can usually follow one of two policies: (1) He can establish his re tailing agency in one of the outlying shopping areas adjacent to th better residential districts; or (2) he can select an area which ha become known as an automobile row, that is, a block or so on a stree in which several automobile dealers already are doing business. Deale who locate in outlying sectors are faced, generally, with the proble of reaching buyers for their older, cheaper used cars. Their alternative are: (1) the wholesaling of such cars, or (2) the establishing of separate used-car outlet in areas frequented by used-car buyers. Whe a separate sales outlet for used cars is maintained, it usually bears th name of the new-car dealer, to capitalize on his prestige in full measur

[1] *See* Chapter I, p. 1.

The choice of a site in automobile row offers the advantage of exposing both the dealer's new- and used-car stocks to those who like to shop for used cars. Such a site has the advantage of maintaining new- and used-car stocks in the same location or in adjacent locations, with consequent ease in controlling operations.

An analysis of the locations of new- and used-car dealers in Cleveland, Ohio, indicates that certain streets or sectors of streets have become known as automobile rows. If the presence of five or more dealers within a few doors of one another may be regarded as an automobile row, ten such rows exist in Cleveland, and four of these rows have been developed on Cleveland's main thoroughfare, Euclid Avenue, which runs east from the Public Square.[2]

This practice also prevails in other cities. In a count made by the Chicago Automobile Trade Association, which decided that six dealers constituted an automobile row, fourteen such centers of automobile retailing were revealed. Three of these rows are located on Michigan Boulevard, Chicago's highly traveled thoroughfare.[3]

Selection of Names for Used-Car Outlets

New-car dealers have endeavored individually, through local trade associations and through factory-directed campaigns, to impress consumers with the belief that used cars purchased from new-car dealers represent safer and better values. Probably the most conclusive evidence of the success of this effort is the recent tendency for used-car dealers who have a big volume of sales to take a new-car franchise from a relatively unimportant automobile manufacturer, in order to claim the benefits accruing under this banner.[4] Other used-car dealers have placed their used-car lots, unnamed, adjoining or near a new-car sales-

[2] An analysis of dealers' addresses showed the existence of the following rows:

Street	*Location of Row*		*Number of Dealers*
Euclid Avenue	1900–2400	(3 blocks)	5
Euclid Avenue	4300–5200	(2 blocks)	9
Euclid Avenue	6500–7300	(6 blocks)	18
Euclid Avenue	13800–14400	(6 blocks)	6
West 25th Street	3100–4300	(8 blocks)	13
Lorain Avenue	10300–11600	(9 blocks)	8
Detroit Avenue	11700–12400	(4 blocks)	6
Broadway	6800–8900	(8 blocks)	10
Kinsman Avenue	13700–15600	(14 blocks)	7
St. Clair Avenue	13600–14100	(3 blocks)	6

[3] Chicago Automobile Trade Association, *General Bulletin*, No. 43, December 8, 1938.

[4] The owner of The Big Store, one of the largest exclusive used-car establishments in Cleveland, Ohio, recently announced that he had taken on the Packard line, and he has since incorporated into his advertising the tactics of new-car dealers by advertising to the public the merits of dealing with a new-car dealer.

room to lead the public to believe that they are the used-car lots of new-car dealers.[5]

It seems rather significant, however, that, with few exceptions (and these seem justifiable), new-car dealers use their names in designating their used-car outlets.

Used-car dealers seldom use their personal names in connection with their outlets, preferring names that suggest quality, a large selection, or price advantages. Examples of names in these classifications chosen by Cleveland's used-car dealers are: (1) *Quality*—"Bonded Motor Sales," "Standard Motors"; (2) *Quantity*—"The Big Store," "The Car Barn"; (3) *Price*—"Finance Auto Sales," "Euclid Finance," "Detroit Auto Sales," "Michigan Auto Sales."

The term "finance" implies that the cars offered are repossessions to be sold at huge discounts, and the use of the names "Detroit" and "Michigan" capitalizes upon a popular misconception—that used cars can be imported from Detroit and Michigan at prices below the Cleveland market, and thus offered at unusually attractive prices.[6]

Sales-Promotion Practices by Cleveland Dealers

The methods employed by 80 of the more important new- and used-car dealers in Cleveland, Ohio, in the promotion of used-car sales have been chosen to illustrate present practices of dealers in metropolitan areas. Questionnaires were placed in the hands of six classified advertising solicitors of used-car business employed by one of Cleveland's largest newspapers. These questionnaires were filled out by the solicitors during the course of their calls upon dealers in one week in the spring of 1939. Only those dealers who placed enough advertising to warrant regular calls from a solicitor were included. Of the 80 dealers thus surveyed, 70 were new-car dealers and 10 were exclusive used-car dealers.

Display of Used-Car Merchandise—In displays of used cars, where the inventories of used cars are adequate, the newest and best-appearing cars occupy the first rows, the second-best are placed back of these, and the cars just above the junker class are placed at the rear. For the display of a daily special, numerous dealers have built one or two platforms in front of their displays for the purpose of featuring an outstanding bargain.

[5] The Chicago Better Business Bureau has cited this action as an evidence of malpractice of dealers. (Interview with the manager, Chicago Better Business Bureau, Chicago, Illinois, May 1939.)

[6] *Ibid.* The Manager of the Chicago Better Business Bureau stated that, in order to employ the word "finance" in a name in Chicago, a sales outlet had to prove that at least 50 per cent of its sales were the result of repossessions.

An examination of the used-car displays of 80 Cleveland dealers (Question 5, Table 28) indicated that the displays of 58 dealers (72 per cent) were satisfactory. The cars had been washed inside and out, fender and body dents had been removed, and the merchandise had been systematically arrayed.

Price Marking of Used Cars—The dissimilarity between the price-marking policies in practically all important fields of retailing and those observed in the retailing of used cars is significant. Used cars are often displayed without price markings or specific details relating to the condition of the cars.

The investigation of price-marking practices of the 80 dealers in Cleveland revealed that 36 dealers (45 per cent) printed the prices either on the windshields of the cars or on tags attached to the cars. Thirty-three dealers (41 per cent) pasted a code price-tag to the windshield or attached it to the steering wheel, and only the salesman who knew the code could decipher it. In outlets of 11 dealers (14 per cent), neither price-tag nor code-tag was in evidence.

The usual practice of dealers in setting the asking price of a used car is to place it $25 to $50 higher than the dealer is willing to accept if no trade-in is involved. This added amount, then, permits a liberal trade-in allowance to the buyer, the average buyer being more concerned with what he will get for his car than the balance he must pay. For example, if a dealer wished to realize $350 on a used car, the price-tag or the price quoted to a prospective buyer would probably be $395. If a customer offered an undesirable car in trade, the price of $395 would be apt to stand. If, however, the car offered in trade could be sold quickly and easily, $375 might be the final price. If a trade-in were not involved in the deal, the purchaser might be able to obtain the car for $350.

Late in 1939, another method of pricing used cars was practiced in the Cleveland area. A tag was placed on a car, calling for $7 down and a stated amount per month, but no information was given as to the number of months payments must be continued. Inquiries revealed that payments were scheduled to run from twelve to twenty-two months. Presumably, the number of payments can be varied as trading conditions demand.

Thoughtful consumers cannot help but lose what confidence they may have in the automobile business when such methods of pricing merchandise are used. On the other hand, the pressure to liquidate his used-car stocks in order to remain solvent has caused many a

TABLE 28—A SUMMARY OF ANSWERS BY SIX SOLICITORS OF CLASSIFIED USED-CAR ADVERTISING TO QUESTIONNAIRES ON SALES PROMOTION PRACTICES OF NEW- AND USED-CAR DEALERS IN GREATER CLEVELAND, OHIO, APRIL, 1939

Questions Asked Used-Car Classified-Advertising Solicitors		Buick	Chevrolet	Oldsmobile	Pontiac	Ford	Chrysler-Plymouth	DeSoto-Plymouth	Dodge-Plymouth	Packard	Studebaker	Willys	Hudson	Graham	Nash-Lafayette	Used-Car Dealers	All Dealers
1. Does dealer schedule ads daily?	Yes	3	5	0	2	5	1	2	4	0	1	1	0	0	0	3	27
Schedule ads for certain days?	Yes	2	4	4	0	3	3	4	4	0	1	0	0	0	1	4	30
Advertise occasionally?	Yes	1	2	2	2	3	2	0	0	4	1	1	1	1	0	3	23
2. Is advertising prepared and ready?	Yes	1	3	2	1	2	2	5	2	0	2	0	1	0	0	0	21
Do you have to prepare ads in part?	Yes	3	7	4	3	7	3	1	6	2	1	2	0	1	0	6	46
Do you have to prepare entire ad?	Yes	2	1	0	0	2	1	0	0	2	0	0	0	0	1	4	13
3. Classify dealer's advertising:																	
Bait advertising?		0	0	0	0	1	1	1	2	0	0	1	0	0	0	7	13
Advertising to move old stock?		2	4	1	2	3	1	1	0	2	1	1	1	0	0	1	20
Consistent advertising of all stock?		4	7	5	2	7	4	4	6	2	2	0	0	1	1	2	47
4. Is selling price marked on cars?	Yes	2	6	6	2	3	3	5	2	2	3	0	0	0	0	2	36
If not, is code price used?	Yes	3	3	0	1	4	3	1	6	2	0	2	1	1	1	5	33
No price marked		1	2	0	1	4	0	0	0	0	0	0	0	0	0	3	11
5. Is salesroom or lot attractive?	Yes	5	10	5	3	7	4	6	6	3	2	1	1	0	1	4	58
Is salesroom or lot unattractive?	Yes	1	1	1	1	4	2	0	2	1	1	1	0	1	0	6	22
6. Would you buy a used car from this dealer?	Yes	5	9	6	2	9	5	6	6	2	3	1	1	0	0	0	55
	No	1	2	0	2	2	1	0	2	2	0	1	0	1	1	10	25

dealer to follow these practices even though he would prefer forthright merchandising.

Table 28 presents the appraisals of dealers made by the six used-car classified-advertising solicitors. The 70 new-car dealers represented the various automobile manufacturers.

Frequency of Dealers' Use of Newspaper Advertising—Of the 80 dealers surveyed (Question 1, Table 28), 27 or about one-third were reported to advertise daily; 30 (38 per cent) were shown to schedule their advertisements for certain days during each week; 23 (29 per cent) were said to advertise sporadically.

Planning of Newspaper Advertising—To the question "Is the advertising carefully prepared and ready for you?" the answers of the six classified-advertising salesmen, which may be somewhat biased, showed that only 21 dealers out of 80 (26 per cent) carefully prepared their advertisements ahead of time and had them ready to run. In the other 59 cases, the dealers relied upon the help of the solicitors. This may explain the similarity among used-car advertisements, and their usual lack of originality and color.

Character of Newspaper Advertising—According to the opinions of the classified-advertising solicitors, 13 of these 80 dealers (16 per cent) generally resorted to bait advertising—advertising one or several cars at unusual prices which were out of line with the market, but failing to disclose a major defect—and using the advertisements to attract prospective customers whose interest might be diverted towards the purchase of other used cars in stock.

Twenty of the 80 dealers advertised only old or hard-to-move stock, while 47 dealers consistently advertised cars which were representative of their stocks.

In Chapter IV, "The Determining of Used-Automobile Values," it was pointed out that 4,873 advertisements of used cars were studied to determine the relation of advertised prices to current market prices, and that advertised prices were shown to be considerably below the current retail sales prices of used cars.[7] The fact that 41 per cent of the 80 Cleveland dealers studied (33 dealers) either used bait advertising or advertised only stocks which were hard to move would seem to corroborate the findings in the earlier study, and affords a partial explanation for the difference.

Integrity of Dealers—The six solicitors, all of whom had been soliciting the dealers for a year or more, were asked to rate each dealer

[7] *See* Chapter IV, Table 9.

by indicating whether or not they, the classified-advertising men, would be willing to buy a used car from the dealer. They replied in the affirmative for 55, or 79 per cent, of the *new*-car dealers; for the 10 used-car dealers, the responses were unanimously negative.

Appeals Employed in Newspaper Advertising of Used Cars

The five types of appeals prevailing in newspaper advertising may be described as: (1) bargain price; (2) quantity and variety; (3) low down payments and easy financing; (4) dependability of dealer; and (5) quality of cars. In the bargain appeal, "must sacrifice used cars," "need cash," "removal sale," and certain trick phrases are frequently found. An example of a trick phrase is the meaningless statement, "savings up to $100.00."

The opportunity of viewing a large selection of cars of all makes and of all price classifications is elaborated upon by large, exclusive, used-car dealers, and by new-car dealers with ample stocks. One Cleveland dealer has advertised his showroom as a used-car department store.[8] Another dealer, handling used cars exclusively, has referred to his establishment as a supermarket for used cars, thereby stressing both the large supply and the low cost.[9]

The appeal of a low down payment and easy financing terms has been a cooperative effort on the part of automobile dealers and finance companies. The dealers have been glad to reduce sales resistance by lowering the down payment and lengthening the period of time payments, and the finance companies have been eager to increase their portfolios of profitable time-sales finance paper.

Well-known and well-established dealers advertise the reputation and the reliability of their establishments. The tenor of their advertising is: Buy with confidence from us; thousands of buyers have been well served by us; we will be here tomorrow to make restitution for any failure on our part.

Dealers in Packards and Cadillacs and other high-priced cars utilize, to the fullest degree, the prestige of the new-car make which they represent. For example, the Packard dealer in Lakewood (a residential suburb of Cleveland) and the Cleveland Cadillac distributor devote the major portion of the newspaper space they buy for used cars to the names of the cars they represent; specific cars advertised appear in fine print below.

The effectiveness of newspaper advertising in stimulating and

[8] Ohio Buick.
[9] The Car Barn.

creating used-car sales is discussed in Chapter XIII, which deals with the reactions of consumers to used cars.

Control of Malpractices in Newspaper Advertising And Sales of Used Cars

The better business bureaus have been the agency through which the automobile trade associations have attempted to protect the consumer against fraudulent advertising. The Chicago Automobile Trade Association pays into the Chicago Better Business Bureau's treasury more than $3,000 annually for the policing of the trade.[10] The Cleveland Automotive Trade Association paid $4,000 annually for the same service until 1937. Since then, the annual contribution has been reduced to $1,200.[11] Advertisements are checked daily by the bureau, and suspicious advertisements are shopped. If found inaccurate, the dealer is called to account. Through the cooperative assistance of the Cleveland newspapers, the findings of the Cleveland Better Business Bureau are made effective; that is, if an advertiser persists in running untruthful advertisements, the newspapers accept the findings of the bureau and refuse to sell further advertising space to the dealer, unless the dealer can come to an understanding with the Bureau.[12]

The Chicago Tribune has gone a step further in the correction of questionable advertising of used cars. In 1939, it established the policy that

> Any automobile advertisement which quotes a price of less than 20% more than the average cash value as published by reliable authorities must be approved by the management before it will be inserted in the paper. It will not be approved until an investigation satisfies the management that the car is as represented by the advertisement. If the car is priced low because it has been wrecked or if there is anything else wrong with it that the buyer should know before purchase, such information must be made a part of the advertisement.[13]

Used-Car Advertising Costs

Exclusive of the manufacturers' used-car advertising costs, it is estimated that dealers spend between 3 per cent and 5 per cent of their used-car sales receipts for advertising.[14]

[10] Conversation with the General Manager of the Chicago Automobile Trade Association, Chicago, Illinois, May 20, 1939.

[11] This reduction was necessitated by a weakened financial condition of the association. Heavy losses which required curtailment of expenditures had been sustained in one of its annual new-automobile shows.

[12] *See* Appendix D for "Standards for Used Car Classified Advertising" which are enforced by the Cleveland Better Business Bureau.

[13] Reprinted in Automobile Merchants Association of New York *Bulletin*, 1939.

[14] Edward Payton, national consultant in sales and management for automobile dealers, Cleveland, Ohio.

The estimated classified advertising of used cars in three Cleveland newspapers for 1939 totaled 1,367,252 lines, at an estimated cost of $353,160.[15] Since the number of sales of used cars by dealers during 1939 was estimated to be 58,732 for Cuyahoga County, Ohio,[16] the average expenditure for each car sold was $5.75. Such an average, however, does not reflect the total cost to dealers of advertising used cars, for many dealers also resort to community advertising and use direct mail effectively. It does indicate, however, that if $200 is accepted as the average used-car price, approximately 3 per cent of the total used-car-sales receipts in the Cleveland market find their way into the coffers of the newspapers.

Cooperative Efforts by Dealers to Promote Used-Car Sales

Most cooperative efforts by dealers in marketing used cars have centered around used-car trade-in allowances, with emphasis on cooperative control of buying. Several different cooperative selling measures have been tried. Among them are: (1) cooperative ownership of a used-car sales corporation; (2) cooperative advertising efforts; and (3) cooperatively sponsored used-car shows. The first of these methods, cooperative ownership of a used-car sales outlet, was tried repeatedly before 1925, but never succeeded. An example of this kind of effort was described in the Appleby Plan.[17]

Cooperative Advertising—Cooperative advertising, or sales promotion of used cars by new-car dealers, has been practiced for some years. In some cities, it has centered around dealers who represent one manufacturer;[18] in others, the dealers in the community have banded together to designate a week, or some similar period, as "used-car exchange week."[19]

Used-car Shows—Used-car shows cooperatively staged by dealers have recently come to the attention of the trade. In 1939, and again in 1940, the Chicago Automobile Trade Association conducted such a show concurrently with the annual new-car show. At the 1940 show, dealers representing 11 different makes of cars displayed 96 used cars.

[15] Calculated from lineage and rates furnished to the writer by *The Cleveland Plain Dealer, The Cleveland Press,* and *The Cleveland News.* These are the three English papers published in Cleveland daily.

[16] *See* Chapter IX, Table 25.

[17] *See* Chapter VII, p. 107.

[18] A current example of this practice is that of the Chevrolet dealers in Cleveland, who are grouping their classified advertising together to benefit from the cumulative effect of Chevrolet advertising.

[19] The National Used-Car Exchange Week laid the foundation for this. Cleveland dealers have observed two annual local "used-car exchange weeks," sponsored by the Cleveland Automotive Trade Association.

In order to be declared eligible for display, each car had to be subjected to a rigid inspection as to its mechanical fitness and its appearance, based on standards established by the Chicago Automobile Trade Association.[20]

Used-car shows should have the backing of the entire industry. The establishment of standards of mechanical condition and appearance for eligibility to enter shows should encourage the raising of dealers' standards of reconditioning. The development of better standards should result in increased consumer confidence, and in more orderly used-car marketing.

A review of automobile history brought to light the fact that used-car shows were held by dealers in Chicago, Illinois, in 1916, 1917, and 1918. In 1916, the Chicago used-car exhibition was held at the Coliseum from May 8 to May 15. Eighty dealers (95 per cent of the dealers in Chicago) were represented.[21] The writer found no record of the number of sales made, either in units or in value. At the show held in 1917, 219 used cars were sold for a total sales price of $177,045, an average of $808.42 per car. In 1918, again 219 cars were sold, but the total value had risen to $193,775, an average price of $884.81.[22] Another used-car show was held in 1918, in Detroit, Michigan. From this time until their revival in Chicago in 1939, used-car shows either were not held or were not publicized in trade journals.

Whether the current revival of the used-car show in Chicago will be continued, and whether other cities will try Chicago's plan, time alone will tell. One factor which seems to be against its permanence or its widespread adoption is the lack of standardization in used cars. A used car on display cannot be duplicated. This fact makes a used-car show quite different from a new-car show, which permits the acceptance of orders based on the sample shown. The value of the used-car show lies in the publicity given to the used-car market, which stimulates current sales and builds consumer confidence in used cars. The failure of dealers to support this type of activity, because of lack of immediate return, would be shortsighted, but cooperative dealer activities seldom indicate a long-range point of view.

Automobile Salesmen

The estimates of the number of automobile salesmen employed by dealers vary widely. One writer estimated that, in 1937, dealers em-

[20] *Used Car Forum,* December, 1939, p. 10.
[21] *The Automobile,* XXXIV (1916), April 6, 647.
[22] *Ibid.,* XXXVIII (1918), April 11, 750.

ployed 190,000 salesmen.[23] Another writer estimated that the number, in 1939, ranged between 88,000 and 132,000, an average of two or three salesmen per dealer, on the assumption that there were 44,000 dealers.[24] A figure lying somewhere between 88,000 and 132,000 seems to be the more reasonable estimate.

Any estimate of the number of salesmen is difficult to make because the retailing of automobiles is a seasonal business. The enactment of state licensing laws for automobile salesmen will facilitate a count of salesmen in future years.

Selection of Salesmen—Prior to the appointment of dealers, the automobile salesman was a direct representative of the manufacturer. Such salesmen not only needed the ability to sell, but, in addition, were supposed to be mechanics. With the standardizing of the product, its mechanical perfection, and its public acceptance, the qualifications of a successful automobile salesman have been altered as drastically as the machine he sells.

Experience in automobile sales, a personal following composed of previous customers and friends, and the ability to close sales quickly at a profitable price have become the primary requisites for a salesman. Qualifications vary with the automobile market. In the selection of a salesman for the higher-priced automobiles, such as the Cadillac, LaSalle, Packard, and Lincoln, the salesman's past selling record and his connections with a particular market are most important. Unit sales in this market are relatively few but the return on each is high; personal acquaintance and assurance of individual attention to the customer are essential. To handle the used cars taken in trade on these sales, a used-car department, housed in separate quarters with a special used-car sales staff, is common. It is also well-known in the trade that the higher-priced new cars involve proportionately more trade-ins to liquidate, or "wash-out," the transaction.

In the lower-priced field, however, the line of demarcation between the new- and the used-car salesman (and the new- and used-car buyer) is not so distinct. Better used cars frequently are shown with new cars, and the new-car salesmen can readily adapt their sales presentations to the used-car buyer. The fact that, in this field, the salesman's earnings are lower per unit sold, and his income depends upon volume, limits the possibility of a salesman's acquaintance with his customers, and increases the necessity of having the ability to close a sale.

[23] Mark Adams, "The Automobile," *Price and Price Policies*, Walton Hamilton and Associates (New York, N. Y., 1938), p. 74.

[24] *Automobile Trade Journal*, August, 1939, p. 20.

The writer has found that used-car prospects are rarely followed up. Salesmen feel that their success or failure in selling a used-car prospect is contingent upon their ability to close the deal when the customer visits the showroom or lot.[25]

Compensation of Automobile Salesmen—Much of the high cost of automobile distribution is due to the 190,000 salesmen, according to Mr. Mark Adams. He estimated that salesmen in the industry average about one sale of a new or used car every fifteen days.[26]

Mr. Adam's contention that automobile retailing costs are high may be granted, but the *Census of American Business, 1933,* shows the personnel costs of motor-vehicle dealers to be 9.6 per cent of net sales as against 11.6 per cent, the average for all retail outlets in 1933. When an imputed proprietor's compensation is added to the personnel-cost figures of the *Census of American Business,* the personnel costs of motor-vehicle dealers, in 1933, amounted to only 11.3 per cent of net sales as against 17.8 per cent, the average for all retail outlets, according to the distribution-cost study for the Twentieth Century Fund. Moreover, according to this study, the personnel-expense ratio is lower in motor-vehicle retailing than in any other field of retailing, with the exception of mail-order houses (catalogs only) and commissaries or company stores.[27]

A report of a survey made in Philadelphia revealed that automobile salesmen earned an average of $22 per week in 1937, and only $12 per week in 1938, due to the decline in automobile sales.[28] Averages such as these, however, are not reliable, for many salesmen are employed only during the seasonal peaks. Well-established dealers select a corps of permanent salesmen who constitute only one-third to one-fourth of the sales force at the peak of the season.

In the spring of 1939, 25 new-car dealers in Cleveland, Ohio, were interviewed to ascertain their sales compensation plans. Chart 7 shows the form of questions asked these dealers, and summarizes their answers.[29]

[25] One of the largest exclusive used-car dealers in Detroit, Michigan, believes that the place to make the sale is on the used-car lot. His 28 salesmen are forbidden to leave the sales lot while on duty in order to call on a prospective customer. If a prospect is to be brought to the lot or a car delivered or returned, one of the 10 "red caps" or junior salesmen is dispatched for the errand. "How I Sell Used Cars," *Used Car Merchandiser,* May, 1939, p. 30.

[26] *Price and Price Policies, loc. cit.*

[27] *Does Distribution Cost Too Much,* The Twentieth Century Fund (New York, N. Y., 1939), p. 146.

[28] *Automobile Trade Journal,* June, 1939, p. 18.

[29] The distribution of dealers interviewed, classified by the make of car which they distributed, is as follows: *(Footnote continued on p. 169.)*

Chart 7—Compensation Plans for Automobile Salesmen: Summary of Answers to Questionnaire by 25 Important New-Car Dealers in Greater Cleveland, Ohio, 1939

1. Do your salesmen sell both new and used cars?		Yes 19 No 6
2. If salesmen sell both new and used cars, is the compensation on the same basis?		Yes 5 No 16
		No Answer 4
3. Which compensation plan do you use now?		
Drawing account	4	
Straight salary	1	
Commission on total sales	0	
Commission on difference between price of car sold and allowance on trade-in	20	

Nineteen of 25 dealers reported that their sales force sold both new and used cars, and one of the 6 which maintained separate new- and used-car sales forces admitted that the separation of these forces was more nominal than real. This might be taken to indicate that one-fifth of all dealers had separate new- and used-car sales forces, but the size of the sample, and the fact that most of the dealers interviewed were large and important representatives of automobile retailing, prevent any such conclusion. Indeed, it is more likely that less than 10 per cent of all new-car dealers have thus divided their sales activities.

It was found that 20 of the 25 dealers paid commissions on, what is called in the trade, "moving money"; that is, the cash difference between the sales price of the car and the appraisal value of the trade-in accepted. Eighteen of the 20 dealers using a commission plan of compensation were willing to divulge the commission rates.

New Car Dealers (Number)	*Commissions Paid on New-Car Sales (Per Cent)*
7	5
8	6
2	7
1	5 to 8 (sliding scale)

Only 15 of the dealers, however, disclosed their used-car-sales commission plans. It was also observed that on this question dealers were

(*Footnote 29, continued.*)

Make	*Number of Dealers*	*Make*	*Number of Dealers*
Chevrolet	4	Oldsmobile	2
Ford	4	Packard	2
Buick	3	Hudson	1
Pontiac	3	Nash	1
DeSoto	2	Studebaker	1
Dodge	2		

more uncertain regarding the efficiency of their methods, and indicated that frequent exceptions and changes were effected.

New Car Dealers (Number)	*Commissions Paid on Used-Car Sales (Per Cent)*
13	6
1	7
1	5 to 8 (sliding scale)

Two of the dealers indicated that a minimum of $5 was paid on the sale of any used car. Several others indicated that bonuses were frequently paid to salesmen for sales of cars which were hard to move.

This study indicated that dealers pay between 5 per cent and 6 per cent commission on new-car sales, and between 6 per cent and 7 per cent commission on used-car sales. For the country as a whole, Mr. Edward Payton, national consultant for automobile dealers in sales and management, reports that salesmen's commissions on new cars are usually calculated at 5 per cent, and, for used cars, range between 5 per cent and 7 per cent.

Discussions with the dealers disclosed that they resorted, frequently, to the practice of making drawing accounts available in order to hold their good salesmen, and that they were not adverse to hiring good salesmen on a salary-plus-commission basis when the occasion warranted this procedure.

Although this limited survey showed no trend towards compensating salesmen by salaries, an authority in automobile retailing management told the writer that some of the dealers representing such cars as Ford, Chevrolet, Plymouth, Dodge, and Pontiac, where sales volume is fairly large and stable, are beginning to pay small salaries to their salesmen and lower rates of commission on their sales.[30]

Attitude of Manufacturers Towards Compensation of Salesmen—Sales executives of Ford, Chevrolet, Plymouth and Dodge, Hudson, and Nash were asked whether the factories advocated or suggested any sales-compensation plans. Unanimously, their answers were in the negative, each company's representative stating that because each dealer's problem was different, its solution belonged in the hands of the dealer. A representative of the Chevrolet Motor Division made the observation, however, that his division had made great strides in hiring, training, and supervising salesmen, but that the problem of compensation was still unsolved, and no indication of its solution had appeared.[31]

[30] Edward Payton, in conversation with the writer, Cleveland, Ohio, March, 1940.
[31] Personal interview, Detroit, Michigan, May, 1939.

Assistance From Manufacturers in the Sales Promotion and Selling of Used Cars

Factory Organization: Used-Car Sales Departments

In 1926, a survey of the used-car policies of automobile manufacturers disclosed that only 8 of 26 automobile manufacturers had systematically integrated used-car activities into their marketing efforts.[32] At the present time, all automobile manufacturers have found it necessary to maintain a separate department or division to collect statistical information on their dealers' used-car stocks and used-car sales, and to develop and furnish used-car merchandising aids.

In an investigation of the used-car activities of both the Nash organization and the Hudson Motor Company—two of the so-called independents—action was found to be centered in the hands of one person who works in conjunction with the sales-promotion department and the new-car field salesmen.[33]

As might be expected, the used-car departments of the "Big Three" are much more extensive and comprehensive.

Dodge-Plymouth Used-Car Department—Since the Plymouth car is marketed through the Divisions of Dodge, DeSoto, and Chrysler, the Plymouth used-car-sales problems are handled by each of the three Chrysler divisions. The sales department of the Dodge organization, the largest of the three, has in it a used-car sales manager who is under the authority of the general sales manager. Under the used-car manager, there are sixteen regional used-car advisers who work cooperatively with the new-car sales managers in charge of the sixteen sales areas of the Dodge Division.

To guide the staff of the used-car executives, the central office collects data on the dealers' sales and inventories of used cars. The condition of each dealer's used-car stock is measured by indexes which are accepted as representing normal conditions for the country as a whole; that is, a dealer's trading activities are considered to be normal if his used cars sold bear a ratio of 1.75 to new cars sold. Dealers' used-car inventories are expected to be divided into age groups, so that 30 per cent of the cars are 1 to 2 years old; 35 per cent, 3 to 4 years old; and 35 per cent, more than 4 years old.

The organization for the other Chrysler Divisions is similar to that maintained in the Dodge Division.[34]

[32] N. Shidle, "The Used Car Specialist," *Automotive Industries*, LIV (1926), April 8, 597.

[33] Personal interviews at Detroit, Michigan, May, 1939.

[34] Interview with sales manager in charge of used-car sales, Dodge Division, Detroit, Michigan, May, 1939.

The Ford Motor Company Used-Car Department—The Ford Motor Company follows the same general plan as described above. There is a used-car department with a used-car manager in each of the Ford branches. This individual, while directly responsible to the main office, is under the control of the branch manager of new-car sales.[35] The activities of this department are practically identical with those carried on in the Dodge Motor Division.

Chevrolet Used-Car Sales Organization—The comprehensive and detailed organization which functions in the Chevrolet Motor Division makes the used-car sales department of the national organization something more than an appendage; it is a separate and almost exact counterpart of the sales organization handling new-car sales.[36]

The manner in which supervision is effected over the new- and used-car sales of the Chevrolet Division is shown in Chart 8.

This organization chart clearly defines the lines of authority. In comparison with other factories' department lines of control, it seems revolutionary, for sales authority is sharply divided to permit independent action. Thus, the Chevrolet sales department has recognized the used car as an integral part of the problem of retailing automobiles. In the other factory organizations, the used-car division is merely supplemental, and serves primarily as an advisory department to the new-car sales organization.

Besides the active sales promotion of used cars, it is the duty of the division to keep a close check on used-car inventories of dealers, turnover of used-car stocks by units and by capital invested, used-car allowances, used-car losses, reconditioning practices, and general operations of the dealers.

The Assistant General Sales Manager of the Chevrolet Division stressed the fact that the used car now holds the same position in the eyes of dealers as the service department held 20 years ago. At that time, dealers regarded service work as distasteful, dirty, and unprofitable, whereas today it is a reliable source of profit. Used cars may be passing through this same transitional stage.[37]

Manufacturers' Aids for Sales Promotion

A dealer's used-car stock is composed of a variety of makes and models. When the manufacturer directs time and money into selling

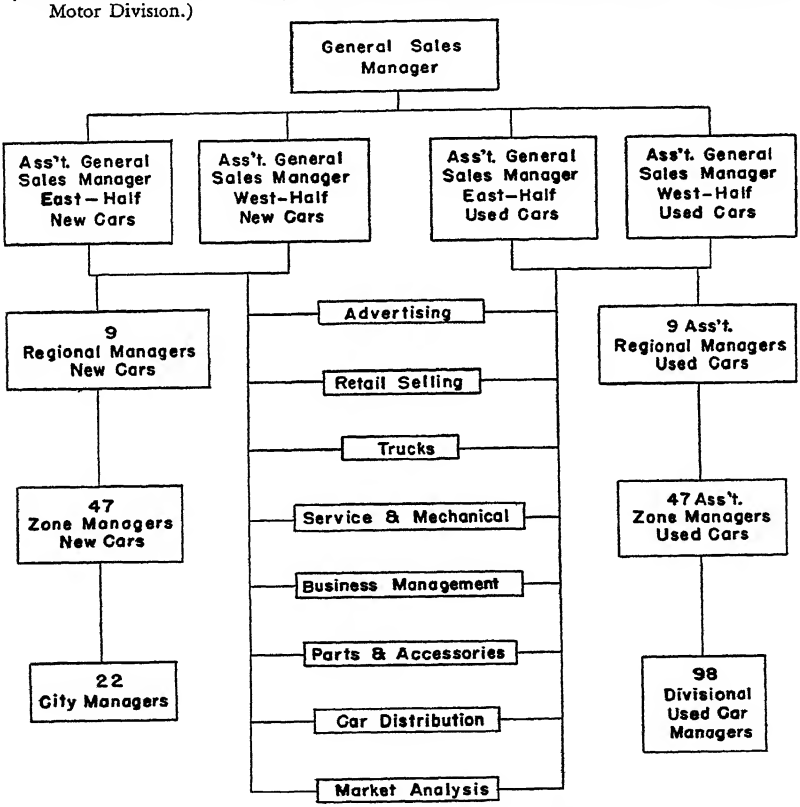
[35] Interview with the executive in charge of used-car sales, Ford Motor Company, Detroit, Michigan, May, 1939.

[36] The Assistant General Sales Manager, in charge of used-car sales for the eastern half of the United States, stated that the Chevrolet Division was the only manufacturer which had a separate and autonomous used-car sales division. (Interview, Detroit, Michigan, May, 1939.)

[37] *Ibid.*

dealers' used-car stocks, it is done with a hope that the expenditure will react to his benefit. Public favor is being sought in two ways: (1) by endeavoring to build up the institutional aspects and the prestige of the dealers who hold franchises from a particular manu-

CHART 8—ORGANIZATION CHART FOR THE CHEVROLET MOTOR DIVISION, GENERAL MOTORS CORPORATION, AS OF MAY 9, 1939.
(Source: Mr. W. G. Lewellan, Assistant General Sales Manager, Used Cars, Chevrolet Motor Division.)



facturer, through emphasis upon quality and reliability of the used cars accepted in trade from a superior clientele; and (2) by identifying the dealers' used-car stocks with a national trade name which implies skilled reconditioning, such as "Gold Seal Reconditioned Buicks," "Studebaker Certified Cars," and other nationally promoted used-car trade names.

Magazine, Radio, and Newspaper Advertising by Manufacturers—Since 1935, several automobile manufacturers have allocated part of their national advertising budget to help their dealers move used-car stocks. The manufacturers of Chevrolets and Fords have used national media to promote the "Chevrolet Red Tag" and "Ford Renewed and Guaranteed" plans.[38]

Local advertising of new cars has been a cooperative effort for a long period of time. In such advertising, the dealer participates through a levy on every new car he buys, made by the manufacturer.[39] The measure is cooperative only in so far as the financial participation is concerned, for local dealers have no voice in how their money is spent, or as to what is said in the advertisements.

Since 1936, manufacturers have allocated some of their advertising budgets to local advertising of used cars during the winter months. The amount so diverted is contingent upon the inventory conditions of the dealers in an area.

Sales Display Material—Other aids supplied by the manufacturer have been display materials for floors, windows, and lots. These are either furnished to the dealer gratis or made available to him at a slight cost in order to eliminate the expense of preparing and shipping materials which the dealer will not use.

Direct Mail—In 1939, General Motors Acceptance Corporation, serving General Motors dealers exclusively, inaugurated a direct-mail campaign among registered car owners, who were divided into two classifications. Those owning cars of the 1936, 1937, and 1938 models received a General Motors Acceptance Corporation finance rate chart for new-car buyers, which stressed G. M. A. C.'s low rates for new cars. Those owning older cars received a copy of a rate chart applicable to buyers of used cars under G. M. A. C.'s terms of financing.

To speed the merchandising of late-model, higher-priced used cars, which seem particularly hard to move from stock, General Motors Corporation has developed folders to be mailed by dealers, depicting attractive General Motors used cars which are one, two, and three years old. The copy stresses the modern appearance and the marked characteristics of their recent models, the implication being that more luxuries are obtainable in such cars than in new cars of the low-price classification.

[38] In the spring of 1935, the Chevrolet Motor Division inaugurated the use of national advertising for used cars, employing magazines and radio broadcasting to supplement other media. National broadcasts were made weekly. *Automotive Industries,* LXXIV (1936), February 15, 210.

[39] In Cleveland, Ohio, Chevrolet dealers are now assessed $6 for each new car they purchase. Ford dealers contribute $5 for each car.

The Ford Motor Company, in 1936, inaugurated a policy of mailing sales promotional material to used-car prospects, and billing the dealers for this service. This high-handed practice conducted without consulting the dealers was protested against, and, under the 1939 plan, the Ford Company made this service optional at the request of a dealer.[40]

Manufacturers' Cooperation in Advertising: Used-Car Week—Very early in 1938, the used-car situation became exceedingly acute. Consumers had purchased many new cars in the latter half of 1937 in anticipation of the promised rise in new-car prices for 1938 models, and upon the strength of the general business outlook. The business recession at the end of 1937 and early in 1938 resulted in a severe decline in used-car sales. Dealers' used-car stocks climbed steadily to an all-time high; by February, the manufacturers had decided to act to relieve the frozen condition of dealers' capital, in order to permit dealers to purchase new cars.

Twenty automobile manufacturers, including the Ford Motor Company—which, for the first time in the history of the automobile, entered into a cooperative venture with other manufacturers—designated March 5-12, 1938, as "Used-Car Week." The estimated budget for the project was $1,250,000, and the final net cost of the campaign was $1,125,883.21. This fund was raised by assessing the manufacturers on a basis of their dollar volume of business for the year ending June 30, 1937. The advertising campaign was conducted under the general direction of the advertising agency of N. W. Ayer and Son, Incorporated, in collaboration with 15 other advertising agencies.

The following media were used to create a demand for used cars: (1) a 20-page portfolio for dealers, describing the program and suggesting dealers' measures for tieing-in with it—local advertising, storeroom or lot displays, direct mail, and ways of stimulating salesmen; (2) advertisements in 1,934 newspapers in 1,517 cities; (3) broadcasts twice a night for 9 days from 400 radio stations.

It is claimed that this campaign resulted in a net reduction of 168,948 used cars in dealers' inventories.[41]

Opinions have varied as to the success of the plan. Some dealers, in retrospect, viewed it with favor; others felt that, while it had stimulated sales and liquidated some used-car stock, the low sales prices obtained for these cars, and the disposal of the better used cars, meant smaller

[40] Federal Trade Commission, *Report on Motor Vehicle Industry* (Washington, D. C., 1939), p. 229.
[41] *Ibid.*, pp. 99-100.

chances for profits and subsequent used-car inventories of a poorer quality, later resulting in unprofitable transactions. It is doubtful if manufacturers would feel that a similar expenditure would be justified again.

Manufacturers' Assistance in Selling—In the field of selling used cars, manufacturers have contributed little. The Ford Motor Company, in 1933, developed a used-car sales-manual for the various phases of used-car distribution, and since that time, the company has conducted used-car sales schools in various key cities.

The Chevrolet Motor Division, in 1937, instituted a five-day sales-training course in the large cities for used-car salesmen. During that year, 1,680 used-car salesmen were hired by Chevrolet dealers. These men were more or less inexperienced at automobile selling. It was claimed that, after training in the factory-sponsored school, these individuals averaged 7.7 car sales per month, as compared with the rank and file which averaged 6 car sales per month.[42]

Other evidences of the manufacturers' sales-training programs for new-car salesmen exist, but evidence of used-car sales-training effort is lacking.

[42] W. E. Holler, *Advertising and Selling,* March, 1938, p. 58.

CHAPTER XI

HISTORY OF AUTOMOBILE-SALES FINANCING, AND THE DEVELOPMENT OF WHOLESALE FINANCING

Since 60 per cent of new and used cars are sold on instalments, the importance of automobile-sales financing to automobile manufacturers, dealers, and consumers is apparent. This chapter presents a brief historical summary of the development of automobile financing, the extent and character of wholesale and retail financing, the factors affecting finance charges, and an analysis of rate charts, together with an examination of current malpractices in financing, and trends towards measures for improvement.

Since an effort has been made to place especial emphasis on the problems relating to used-car financing, certain features, which are of great significance in a discussion of new-car financing but of little importance in the consideration of used-car financing, are dealt with only briefly. While the used car constitutes a problem which the manufacturer ignores as long as he can, and the dealer regards as his greatest hindrance to profitable operation, the finance company sees in it another piece of merchandise that can be financed at a profit, and welcomes its addition to the market.

Historical Development of Automobile-Sales Financing, 1914-1939

From the earliest days of automobile selling, the automobile dealer has been forced to finance his inventory of new and used cars, and grant credit to the consumer. This is a unique situation, for credit has invariably been granted to middlemen who expect to do part of their business on the capital of the manufacturers. Various reasons have been given for the development of this practice, which is peculiar to the automobile industry. Among these are: (1) the inability of the manufacturer to obtain bank loans in order to carry on production; (2) a body of dealers so anxious to obtain cars that they were willing to borrow to finance their inventories, and were willing to pay for a considerable portion of their season's commitments some months ahead of time; (3) the character of the product—an expensive unit, subjected to numerous hazards; (4) the speculative nature of the commodity with its rapid depreciation and danger of early obsolescence. Even to this day the dealer pays for his cars before receiving them.

With the very rapid increase in the volume of new cars sold, and the entrance of the used car as a factor in the sale of new cars as early as 1912, the liquid capital of dealers was being absorbed in the rising new-car inventories, the stocks of used cars, and the customers' receivables.

Some of the better-established dealers were able to secure bank loans, either on their inventories or on their accounts receivable, but, in the majority of cases, a combination of two factors deterred banking aid. First, dealers, in many instances, due to the rapid rise in their sales volumes, lacked sufficient equity to offer the margin of safety which bankers required; second, bankers retained, for many years, a skeptical attitude towards the automobile industry as a stable, permanent business.[1]

At the beginning, it was necessary for the automobile purchaser to pay cash for his car. By 1910, the automobile had established itself as a reasonably sound piece of merchandise, and many well-established individuals manifested an interest in the purchase of one, but lacked the liquid capital with which to buy it. They could purchase if dealers could sell on some terms of credit, but not otherwise.

Europeans experienced the same situation, and since European cars had progressed to a higher degree of quality and workmanship, it is probably natural that the first steps towards the sale of cars on instalments should have been taken in London[2] and Vienna.[3]

[1] "Under the heading 'Bankers Find Many Automobile Crazy,' the *New York Herald* of July 22, 1910, printed a press dispatch as follows: 'Mount Vernon, N. Y., Thursday, The Westchester Bankers Association believe the people of the country are automobile crazy. On information received by its members at a session at the Briarcliff Hotel today, it was decided to look carefully into the applications of those who wish to borrow money on notes. If it is found that the applicant is to purchase an automobile, the bank will use extreme caution in discounting his paper. It is said that hundreds of persons have either mortgaged their homes or hypothecated valuable securities to purchase automobiles in the last six months.' According to this bankers' association, a man who purchases an automobile is either lacking in sense or dishonest. It is, of course, gratifying to know that these bankers disapprove of dishonesty; it saves a bank examiner considerable worry to know that he does not have to watch a 'string' of banks, but when a grave body of respected citizens makes the broad claim that the purchasers of automobiles hypothecate valuable securities, the public at large will be justified in believing that they at least know the meaning of the word." *The Automobile,* XXIII (1910), July 28, 164.

[2] "The Britishers have evolved a plan whereby those who have not the ready money to buy a car outright may do so piecemeal, enjoying its use meanwhile and meeting all the incidental expenses of its operation.

"London has solved a problem by means of which motoring is brought within the means of many men. The plan is for the purchaser to pay £100 quarterly for the period of 3 years (a total of £1200), this amount to include all of the running expenses of the car, besides the chauffeur's wages, insurance, petrol, lubricants, tires and repairs. At the end of thirty-six months the car becomes the sole property of the erstwhile renter. The arrangement allows the holder to run the car a distance of 6,000 miles each year. Professional men, doctors in particular, look with great favor upon the scheme. The car intended for purchase on these terms sells outright for £500

The formal beginnings of the practice of selling cars on instalments are vague, and, undoubtedly, many private transactions involving some form of instalment payments took place prior to a public announcement. The first publicity given to any instalment plan was in April, 1914, when a Ford Agency in New York City advertised the sale of Ford cars at $200 down, and the balance in 6 per cent monthly notes of $50. The notes were to be endorsed by the dealer and discounted by the bank.[4]

Mr. Milan V. Ayres, Secretary and Analyst for the National Association of Sales Finance Companies, has illustrated the origin of time-sales financing in the following manner:

> About 24 years ago, in the summer of 1914, I approached a Ford dealer in Washington, D. C., and asked him if there was some arrangement by which I could buy a car on the installment plan. He replied if I could pay 50 per cent down, I could give him three notes to cover the balance, one for 30 days, one for 60 days and one for 90 days, and he would discount these notes at the bank. That was, of course, contingent upon the bank being convinced that I had a sufficiently good credit standing. Evidently that dealer could not afford to carry my installment notes himself and did not know of any institution which would finance an intallment sale on terms similar to those which are now customary.[5]

Although the sale of automobiles on instalments had not been practiced prior to this time (1914), finance companies, which generally

($2500). Add to this the cost of maintenance, driver's wages, etc., and it will be seen that £1200 is not far out of the way of the figures involved in the deal." "Buy Car on Installments," *The Automobile,* XXIV (1911), May 4, 1043.

[3] "Physicians' Automobile Club of Vienna adopts course by which physicians may receive car before payment." The car is maintained by a credit company at a monthly flat rate of $110.00. The price of the automobile recommended ranges between $2,000 and $2,375. Down payment is $600, with monthly payments after delivery ranging from $70 to $80, including 1.5 per cent on the money yet unpaid. Maintenance includes: (1) efficient tire equipment; (2) supply of fuel and lubricants; (3) regular wages; illness and accident insurance for the chauffeur; (4) fire and liability insurance; (5) garage and washing cost; and (6) charging of batteries to keep electric lighting system in operative condition at all times.

On the other hand, mileage is limited to 1000 kilometers a month (621 miles) of which only 150 kilometers can be out of Vienna. A charge of 5 cents additional is made for every additional kilometer outside of the city limits. All repairs must be made in the shop of the credit company. If tire prices rise or fall in excess of 10 per cent, adjustment of the contract is to be made.

"The physicians' club naturally believes that these easy conditions will cause many doctors to become users of automobiles." "Credit Extended to Club," *The Automobile,* XXVIII (1913), January 23, 319.

[4] "New York, April 27. Partridge, Clark & Kerrigan, Inc., have taken over the Ford agency and have inaugurated a deferred payment plan. The purchaser may pay $200 down and the balance in 6 per cent notes at the rate of $50 per month; the paper will be endorsed by the dealers and discounted by their bankers, a mortgage on the car will act as security for the notes . . .". "New N. Y. Ford Agency Sells on Terms," *The Automobile,* XXX (1914), April 30, 939.

[5] "Motor Vehicle Selling and Financing," an address before the Annual Convention of the Pennsylvania Automotive Association, Bedford Springs, Pennsylvania, June 28, 1938, as reported in *Time Sales Financing,* July, 1938, p. 5.

served as purchasers of accounts receivable, had financed the sale of sewing machines, pianos, farm equipment, and other items for consumers. These financial institutions ventured into automobile financing cautiously. When their experience with it proved satisfactory, many of these companies decided to make it their major line of activity. One speaker, commenting on the development of this practice, said in 1938:

> The transition was so gradual that some of these concerns, which are still in existence, cannot tell you when they bought their first installment contract and do not know exactly when they came to regard themselves as mainly in the business of what we call a sales finance company, instead of in the business of purchasing accounts receivable. During the seven years from 1914 to 1921 a great many new companies were formed specifically for the purpose of financing installment sales, and by 1921 there were nearly as many such companies in existence as there are now.[6]

The peak of this development occurred about 1925. It has been variously estimated that between 1,200 and 1,500 companies considered automobile financing their major activity.[7]

It is worthy to note that during this same period, in the year 1919, General Motors, under the leadership of John Raskob, organized The General Motors Acceptance Corporation to assist the General Motors dealers to finance the sales of General Motors cars.

With the development of consumer financing, or retail financing, finance companies rendered dealers further aid by floor-planning[8] their car inventories. Competitive practices have forced finance companies to grant this service in order to get the retail paper of dealers, even though this latter service has always been looked upon as unprofitable.

This financing aid, thus available to dealers, permitted a greatly increased inventory on their existing working capital, and, also, opened the way for many, whose capital heretofore had been too limited, to obtain dealerships.

By 1922, the automobile-finance business had grown to such proportions, and so many had entered the field, that the leading finance

[6] *Ibid.*

[7] Fred V. Chew, Executive Secretary, the American Finance Conference, Chicago, Illinois. "The History and Growth of Finance Companies," an address at the Fifteenth Annual Convention of Michigan Automotive Trade Association, March 28, 1935, as reported in *American Finance News,* April 18, 1935, p. 4.

Also, Milan V. Ayres gives the number of 1,500 in an address, "The Economic Functions of the Sales Finance Company," before the American Statistical Association, Atlantic City, December 28, 1937, as reported in *Time Sales Financing,* January, 1938, p. 4.

[8] Floor-planning is synonymous with wholesale financing.

companies felt the necessity of getting the finance companies together to establish some semblance of order. The following abuses and problems were commonplace and needed correction or attention: (1) duplication and substitution of chattel mortgages on the same vehicle in wholesale financing; (2) instability of prices of new cars and rapidity of obsolescence; (3) the numerous car hazards and the poor care to which the automobile might be subjected, which frequently dissipated the equity; (4) the mobility of the product, making repossession to satisfy judgment more difficult; (5) an increasing number of dealers and their lack of financial stability—a situation created, in the main, by the demand of manufacturers for sales-outlets, and the rapid development of automobile financing; (6) no central clearing house of finance companies to detect the violators, either dealers or customers.[9]

To these might well be added the lack of standards as to the requirements for down payments and the number of monthly payments, the inadequate insurance protection, and the absence of standards of value in used cars.

To meet these problems, a Central Finance Association was organized in 1922, with headquarters in Chicago. The following basic rules for financing the sales of automobiles were suggested to sales-finance companies: (1) new cars to be financed with a maximum of 12 equal monthly payments with one-third down; (2) used cars to be financed with a 50 per cent down payment and a maturity of 10 equal monthly payments; (3) demonstrators to be treated as used cars; (4) financing of used cars to be limited to cars not more than four years old; (5) no deals involving hold-outs, reserves or infractions of the foregoing to be accepted.[10]

The banks, too, became interested in this movement towards more orderly procedure in automobile financing:

> . . . By 1924 the finance companies had really begun to flourish and the banks had had sufficient experience with such credits as to cause them to view with apprehension the growth, under the strain of competition, of certain credit practices which tended to impair both the safety and liquidity of finance paper. As a result of meetings between bankers and finance men that year, certain standards were set up and a national association of finance companies was formed to urge the adoption of these standards.[11]

[9] Harry Tipper, "Credit Requirements Have Outgrown Facilities for Financing Car Sales," *Automotive Industries,* XLVI (1922), May 25, 1128.

Statistics on automobile financing are not available prior to 1927.

[10] "Aims to Standardize Financing of Sales," *Automotive Industries,* XLVII (1922), December 28, 1298.

[11] K. K. Du Vall, Assistant Vice President, City National Bank and Trust Company, Chicago, Illinois, "Appraising the Finance Company Today," an address before the Robert Morris Associates, French Lick, Indiana, 1935. Reprinted from *Bulletin* of the Robert Morris Associates (Landsdowne, Pennsylvania, 1935), April.

The following resolutions were adopted by the National Association of Finance Companies, meeting in Chicago in December, 1924:

a. On monthly installment paper covering new passenger cars, the maximum maturity of such paper shall not exceed twelve months, payable in *equal* monthly installments.

b. On monthly installment paper covering new passenger cars, the minimum down payment by purchasers shall not be less than either one-third of the cash or thirty per cent of the time selling price at point of delivery, including accessories and equipment.

c. On monthly installment paper covering used passenger cars, the minimum down payment by purchasers shall not be less than either forty per cent of the cash or thirty-seven per cent of the time selling price at point of delivery, including accessories and equipment, with a maximum maturity of twelve months, payable in *equal* monthly installments.

AND BE IT FURTHER RESOLVED: That all manufacturers and distributors of and dealers in passenger cars be and they are hereby requested to cooperate in a sincere endeavor to confine the sale of new and used passenger cars for individual use within the aforesaid limitation, in order to continue to keep the manufacture, distribution and retail financing of passenger automobiles on time upon a safe and sound basis.[12]

Probably the next significant event was the move made by the Chrysler Corporation, in 1925, to participate in the control and profits of automobile financing, by becoming affiliated with the Commercial Credit Company of Baltimore. The contract between these companies was not revealed to the public, and what the benefits and responsibilities were between 1925 and 1936 were unknown. But on October 8, 1936, the Commercial Credit Company issued a prospectus in connection with $30,000,000 debenture notes, in which it stated that the Chrysler Corporation owned 50,000 shares of its stock, and that the Chrysler Corporation had directed to the Commercial Credit Company a large share of the business of the Chrysler interests.[13]

[12] *Fundamental Principles for Financing the Sale of Passenger Automobiles Payable in Monthly Installments.* National Association of Finance Companies (Chicago, Illinois, 1925).

[13] " 'The Companies have had very close and important cooperation with the Chrysler Corporation, since the organization of the latter in 1925, which has resulted in a large volume of business in financing sales of cars produced by Chrysler Corporation and its subsidiaries, including at the present time Plymouth, Dodge, DeSoto and Chrysler divisions. On December 10, 1934 Chrysler Corporation bought from Commercial Credit Company 50,000 shares of the Company's Common Stock (approximately 3 per cent of the Common Stock outstanding on September 10, 1936) and entered into a contract with the Company under the terms of which Chrysler Corporation and its subsidiaries, among other things, have used and are to use and have recommended and are to recommend the financing plans and facilities of Commercial Credit Company in connection with the sale by their dealers on a time payment plan of cars produced by Chrysler Corporation and its subsidiaries, and also through their officers, field offices and personnel, by proper means, to encourage, endorse, promote, recommend, develop and endeavor to bring about the use by their dealers of the financing plans and facilities of the Company, and to mention in their advertising and radio broadcasts that Com-

In 1928, the Ford Motor Company effected an arrangement with a finance company to give the Ford Company control over the terms and rates of the financing of new Ford cars. The Universal Credit Corporation was organized by interests friendly to the Ford Motor Company, and was owned, in part, by the Commercial Investment Trust. The Commercial Investment Trust also became affiliated with the Nash Motor Car Company, the Hudson Motor Car Company, the Auburn Automobile Company, the Studebaker Corporation, and other companies. The time and nature of these affiliations were not revealed to competition or to the public.[14]

The early thirties further proved the sound character of automobile financing. Mr. Ayres, in his address before the American Statistical Association in Atlantic City, December 28, 1937, made the following summary:

> It has been said that during the depression no bank lost any money by reason of a finance company failure, while many finance companies lost money by reason of bank failures. That statement is very nearly correct. In fact, from the beginning of finance company existence, there have been hardly any failures of such companies resulting in serious loss to their bank creditors. This is true in spite of the fact that banks habitually loan to sales finance companies much larger sums of money than they would to practically any other kind of business enterprise with the same net worth.
>
> This remarkable record is due principally to the very great diversity of risk and to the fact that the vast majority of installment purchasers pay up, even in periods of depression. The greatest risk of loss to a finance company is in its wholesale loans, and not in its retail installment purchases; but because the wholesale loans are always secured by salable merchandise, serious losses, even in this field, seldom occur except through deliberate fraud committed by the dealer.
>
> Some finance companies have failed, usually as a result of mismanagement, though in a few instances through fraud, but nearly always the assets have been sufficient to pay the creditors in full.[15]

mercial Credit Company is the finance company approved and recommended by Chrysler Corporation. The contract runs from year to year unless terminated by either party on or before September 30th in any year, in which event the effective termination date shall be the December 31st thereafter. The services performed by Chrysler Corporation and its subsidiaries are believed to be a valuable advertisement of Commercial Credit Company and its business, plans and financing facilities, to save the Company a substantial sum in promoting and acquiring additional business from dealers, and to increase its business and profits.'

"In addition to its arrangements with the Chrysler Corporation, the Commercial Credit Company had a contract with the Packard Motor Car Company and solicited and obtained both new and used car paper which it considered desirable from all dealers." *The Automobile Finance Business,* American Finance Conference (Chicago, Illinois, 1937), p. 4.

[14] *Ibid.*

[15] Milan Ayres, "The Economic Functions of the Sales Finance Company."

These statements are substantiated by Harvey W. Huegy and Arthur H. Winakor, *The Financial Policies and Practices of Automobile Finance Companies,* University of Illinois Bulletin, XXXV, No. 45 (Urbana, Illinois, 1938), 49.

By 1930, the finance companies had definitely fallen into three najor classifications: (1) the factory-owned company—General Moors Acceptance Corporation, and the factory-affiliated companies, ncluding Commercial Credit Company, and the Commercial Investnent Trust with its subsidiary, the Universal Credit Corporation; (2) hree regional companies—Associates Investment Company of South Bend, Indiana, the National Bond and Investment Company of Chiago, Illinois, and the Pacific Finance Corporation of Los Angeles, California; and (3) local finance companies—approximately 500 in umber.

In 1934, during the administration of the National Recovery Act, ome of the leaders of the automobile-sales finance companies sought to stablish a code for their industry, in order to bring about standard ractices. Since the national finance companies purchased more than o per cent of all automobile retail-sales finance paper, these companies lesired to draft the code for their industry, and sought to control its dministration. The fight over control, coupled with the wide diversity f opinion as to the extent of dealer participation in retail finance paper, ot only of recourse reserves but in nonrecourse rebates,[16] prevented a ode from being accepted and administered.[17]

Out of this controversy, another association of finance companies eveloped in 1934—the American Finance Conference, which represents nore than 350 finance companies, and is devoted to the interests of the ectional and local companies who are unaffiliated with any car nanufacturer.

The soundness of automobile finance paper after the 1929 crash aturally drew the attention of money lenders.[18] The industrial banks nd many personal loan companies desired a share of this lucrative usiness, inasmuch as loans on furniture, radios, and other household quipment had dropped precipitously, leaving these companies with mple funds to seek other profitable outlets. These companies sought o obtain this business in two different ways: (1) by using the preailing conventional method of discounting the retail paper of dealers; 2) by advertising directly to consumers that the companies would lend nem cash with which to buy cars, if discounted paper was not available n sufficient quantities, and this was likely to be the case. In reality, ot cash but a letter of credit was given which certified that a check vould be delivered upon receipt of the bill of sale.

[16] A discussion of recourse and nonrecourse paper will be found on pp. 206–208.

[17] *The Business of Automobile Financing,* American Finance Conference (Chicago, inois, 1935), pp. 10-15.

[18] Conversation with the Vice President of the American Finance Company, Cleveland, hio, April 25, 1939.

After the bank holiday of 1933, many commercial banks, through personal-loan divisions, or through separately created departments devoted to automobile financing, entered into this now exceedingly competitive field, and thus made the fourth distinct institution which could serve this business.

Certain banks have gone a step further in this field; not being satisfied to handle the personal-loan phase alone, they have developed departments that are modeled directly after the finance companies, wherein they can render to dealers complete financing services.[19] In some instances, these banks have organized time-sales finance subsidiaries.[20] These are a relatively new development, and only time will prove their place in this field of activity.

Financing the Inventories of Dealers

In the foregoing brief summary of the historical development of automobile financing, the difficulties which automobile manufacturers and automobile dealers had in securing banking accommodations have been pointed out. Well-established and well-financed dealers naturally have been able to get banking accommodations, and, over the course of years, have not only financed their inventories of new and used cars, but, in addition, have financed a considerable portion of their own retail paper.[21]

However, the majority of dealers have been unable to secure bank assistance to carry their inventories. The result has been that the automobile dealers have been assisted by automobile finance companies in this respect, as well as in the financing of the retail-sales finance paper.

Financing of dealers' inventories by automobile-sales finance companies is called *wholesale financing*. The date of its origin as applied to new cars is uncertain, but it is known to have existed very shortly after the beginning of retail financing.[22] Its growth was unheralded, and its size and importance were not measured until 1929, when the

[19] The Cleveland Trust Company, Cleveland, Ohio, organized such a department in 1938.

[20] The following are examples of banks with known finance-company subsidiaries: St. Louis Industrial Trust Company, Manufacturers Trust Bank of Newark, N. J., and the Citizens National Bank of Evansville, Indiana.

[21] *Investigate Motor-Vehicle Distribution Practices,* Government Printing Office (Washington, D. C., 1938), p. 10.

Mr. A. N. Benson, then Secretary of the National Automobile Dealers Association, stated on December 16, 1937, in hearings before a subcommittee of the Committee on Interstate and Foreign Commerce of the House of Representatives, that about 5,000 out of 46,000 dealers had $20,000 or more invested in their businesses.

[22] When General Motors Acceptance Corporation was organized in 1919, it was announced that one of its principal purposes was wholesale financing of new cars.

United States Department of Commerce began to publish data collected from the automobile finance companies in all parts of the country.

It is interesting to note that Professor Ralph C. Epstein, in his book, *The Automobile Industry,* published in 1928, made the observation that "the amount of wholesale financing was not large and the need for it was decreasing, because of the rapid increase in the proportion of closed cars suitable for year around operation."[23] Two factors which Professor Epstein could not foresee in 1928 were: (1) the depression, with its heavy inroads on the capital of dealers; and (2) the development of wholesale financing of used cars. Prior to the depression, wholesale financing of used cars was unheard of; it started inconspicuously in the thirties, and grew rapidly.[24]

The reasons for this rapid growth are many. They can be classified into four major divisions: (1) the rapid rise in automobile sales and in the trade-in problem; (2) the sales policies of manufacturers; (3) the financial position of dealers; (4) the profitableness of retail-sales finance paper.

Underlying these reasons are certain factors which have contributed to the growth of wholesale financing. A number of these have been discussed in previous chapters. However, their recapitulation in the following outline will serve to emphasize their bearing upon the financing of the inventories of dealers:

1. *The Sale of Automobiles*
   a. The rise in the volume of sales after 1918 was generally faster than the increase in the liquid capital of dealers. (*See* Table 2, Chapter II.)
   b. An increasing number of cars were traded in on the purchase of new cars. (*See* Table 3, Chapter II).
   c. Prior to 1921, trade-ins on used-car purchases were exceptional; since that time, it has been quite customary for used cars to be traded in on used cars, thereby further freezing the liquid capital of dealers.
   d. The standardization of the automobile and the stabilization of its price have created better security for loans.

2. *Sales Policies of Manufacturers*
   a. The extremely competitive condition among manufacturers has caused them to reduce capital requirements for new dealers. This

[23] Ralph C. Epstein, *The Automobile Industry* (Chicago and New York, 1928), pp. 41-2.

[24] Milan Ayres, in correspondence with the author, dated July 12, 1939, stated that he believed 1934 marked its beginning, but was not sure of this date.

is particularly true of the independents (all manufacturers exclusive of General Motors, Ford and Chrysler).

3. *The Financial Position of Dealers*
   a. The highly competitive condition in the retailing of automobiles has limited profitable operations.
   b. The seasonal and cyclical nature of new- and used-car sales has prevented careful planning of financial needs.
   c. The depression of 1930-1934 and the recession of 1937-1939 made serious inroads on the capital of dealers, and limited their ability to obtain banking assistance, because the banks regarded their financial statements as unsatisfactory for commercial loans.

4. *Profitableness of Retail Paper*
   a. The great eagerness of finance companies to obtain profitable retail paper of the automobile dealers has caused the finance companies to floor-plan dealers' cars, on the assumption that, if the service of wholesale financing is granted, the dealers will discount their retail-sales paper with these companies.
   b. The factory-owned, and, until recently, the factory-affiliated finance companies[25] have so simplified the method of securing wholesale financing aid that they have relieved the dealers of the necessity of securing bank loans. For example, General Motors sells all of its cars directly to General Motors Acceptance Corporation, which, in turn, makes arrangements to sell these cars to distributors and dealers. The dealers grant a G.M.A.C. official the power of attorney, and their wholesale financing of new cars is arranged for them.

In order to get a proper perspective of the volume of wholesale financing, it is necessary to make comparisons with the volume of purchasers of new and used cars made by dealers. Table 29 presents the automobile dealers' new- and used-car purchases for the past ten years, and shows the growth and the relationship of wholesale financing to these purchases.

In Table 29, there is shown the wholesale value of new and used cars sold by automobile dealers for each of the 10 years, 1929-1938, which permits a comparison between the total wholesale value and the amount of wholesale financing. The dealers' sales of new and used cars have been discussed at length in the chapters on the supply and

[25] The Finance Consent Decree, later discussed in Chapter XII, explains the separation of the factories and their affiliated finance companies. *See* pp. 225–227.

AND USED CARS, 1929-1938

Year	New Car[a] Registrations (1)	Ratio of Used Cars Sold to New Cars Sold[b] (2)	Estimated Number of Used Cars Sold (Col. 1 × Col. 2) (3)	Average Wholesale Value per New Car[c] (4)	Average Wholesale Value per Used Car[d] (5)	Estimated Total Wholesale Value of New Cars Sold (Col. 1 × Col. 4) (6)	Estimated Total Wholesale Value of Used Cars Sold (Col. 3 × Col. 5) (7)	Estimated Total Wholesale Value of New and Used Cars Sold (Col 6 + Col. 7) (8)	Total Value of Wholesale Financing of New and Used Cars[e] (9)	Ratio of Wholesale Value of New Cars to Wholesale Value of All Cars (Col 6 ÷ Col. 8) (10)	Ratio of Wholesale Value of Used Cars to Wholesale Value of All Cars (Col 7 — Col 8) (11)	Ratio of Wholesale Financing to Total Wholesale Value of New and Used Cars Sold (Col. 9 ÷ Col. 8) (12)
	Number	*Per Cent*	*Number*	*Dollars*	*Dollars*	*Million Dollars*	*Million Dollars*	*Million Dollars*	*Million Dollars*	*Per Cent*	*Per Cent*	*Per Cent*
1929	4,407,263	128.6	5,668,000	636	297	2,803	1,683	4,486	678	62.5	37.5	15.1
1930	3,036,678	164.4	4,992,000	606	280	1,840	1,398	3,238	661	56.8	43.2	20.4
1931	2,222,025	170.6	3,791,000	577	268	1,282	1,016	2,298	554	55.8	44.2	24.1
1932	1,276,812	185.9	2,374,000	554	241	707	572	1,279	330	55.3	44.7	25.8
1933	1,739,663	178.0	3,097,000	497	220	865	681	1,546	500	56.0	44.0	32.3
1934	2,292,443	160.1	3,670,000	536	226	1,229	829	2,058	907	59.7	40.3	44.1
1935	3,254,591	157.8	5,136,000	531	237	1,728	1,217	2,945	1,403	58.7	41.3	47.6
1936	4,016,141	164.1	6,590,000	558	258	2,241	1,700	3,941	1,704	56.9	43.1	43 2
1937	4,102,001	164.8	6,760,000	592	279	2,428	1,886	4,314	1,887	56.3	43.7	43.7
1938	2,256,370	201.0	4,535,000	637	275	1,437	1,247	2,634	991	53.5	46.5	36.9

[a] R. L. Polk and Company. The term "cars" includes passenger and commercial vehicles.

[b] *Composite Experience of Sales Finance Companies and Automobile Dealers*, National Association of Sales Finance Companies, 1939.

[c] *Automobile Facts and Figures, 1939.* Computed by dividing total factory value by total number of cars.

[d] This figure is the same as the average note of used cars purchased by finance companies who usually limit their customer's note to the wholesale value of the automobile.

[e] Composite Experience Table, *loc. cit.*, Appendix E.

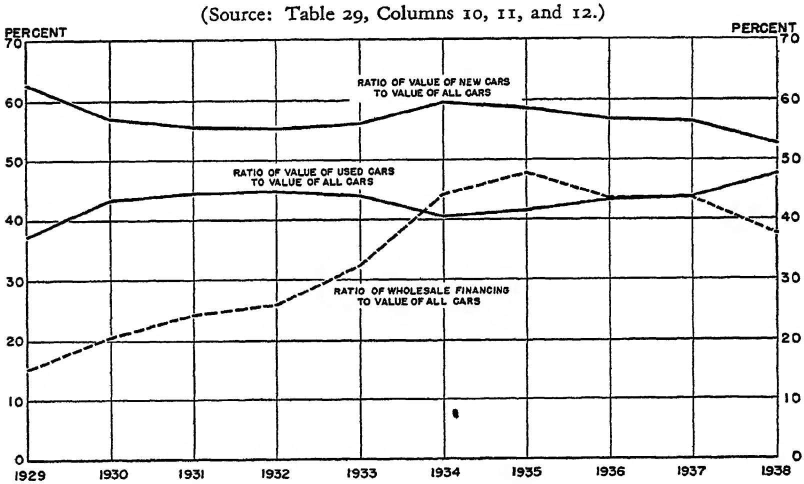
demand of used cars; hence, these data need no further explanation at this point.

The ratios of the wholesale values of new and used cars sold to all cars sold are given in Columns 10 and 11. In 1929, the wholesale value of used cars sold represented 37.5 per cent of the value of all cars sold; by 1938, the wholesale value of the used cars had risen to 46.5 per cent. This indicates that, in 1938, automobile dealers, in total, had almost as much money tied up in the used-car stocks which they sold as they had in the new cars which they sold.

The relationship of wholesale financing to the total wholesale value

CHART 9— COMPARISON OF WHOLESALE VALUE OF NEW AND USED CARS SOLD, AND TOTAL WHOLESALE FINANCING

(Source: Table 29, Columns 10, 11, and 12.)



of new- and used-car sales of automobile dealers is shown in Column 12. In 1929, wholesale financing represented 15.1 per cent of the wholesale value of all cars sold by dealers. In the course of ten years, this ratio increased to 36.9 per cent (1938), while, in 1935, this percentage reached an all-time high of 47.6 per cent.

Chart 9 presents graphically the relations of the wholesale value of new cars, the wholesale value of used cars, and total wholesale financing to the total wholesale value of all cars. The rise in the importance of wholesale financing is well marked, particularly when the downward trend in new-car value is considered.

Wholesale Financing of Used Cars

Separate statistics on wholesale financing of used cars are not available. Even if such data existed, it is doubtful if they would be of much value. Since finance companies prefer to loan on new cars, it is natural that used-car loans would not be made until all new-car collateral had been assigned. Although General Motors Acceptance Corporation will not grant wholesale loans on used cars, there is little question that the rising used-car inventory has had its effect on its new-car wholesale loans. Where some dealers previously did not borrow at all, or only to a limited extent, the increasing used-car inventory has caused them either to begin to borrow on their new-car inventory or to increase their borrowings. The result is that the wholesale financing of used cars is so tied up with the wholesale financing of new cars that it is impossible to separate them.

Standards in Wholesale Financing

Institutions which offer wholesale financing look to the character, capacity and capital of automobile dealers as the determining factors in granting credit. Although finance men are prone to emphasize the importance of character and capital, they use the chattel for security. Wholesale-financing loans are granted upon the surrender of a certificate of title, a trust receipt, or a warehouse receipt, or by a chattel mortgage.

Loans are not in the nature of blanket loans; a separate and distinct loan is made on each automobile, and the contract provides that this loan falls due the day the car is sold.

Standards for New-Car Loans

The standard practice is to grant a loan of 90 per cent of the wholesale value of a new car; that is, the wholesale value at the factory. This requires the dealer to furnish 10 per cent of the value plus freight charges to his warehouse. But 100 per cent loans on new cars are widely in effect today.[26]

[26] "Usually the finance company invests 90 per cent of the dealer's cost in such floor-plan cars, and the dealer pays the remaining 10 per cent. Sometimes, however, the finance company invests the total cost. This is known as a '100 per cent floor plan.' The dealer agrees to pay to the finance company the amount it invests in each car on floor plan either before or at the time the car is sold at retail. Usually the dealer pays to the finance company an amount equal to ½ of 1 per cent a month on the amount the finance company invests in his floor plan. Sometimes floor plans are made without any compensation whatsoever in order to be on friendly terms with the dealer and to aid the finance company in soliciting the purchase of his retail instruments. In any event the income on the investment in floor plan is so small that the operation results in a loss to the finance company." *The Business of Automobile Financing*, published by American Finance Conference (Chicago, Illinois, 1935), p. 8.

The rate for this service until the last few years was 6 per cent. The actual rate today is 4 per cent, and automobile-finance men assert that in many private agreements it falls below this rate.[27]

In addition to this charge, it is customary for the finance company to make a separate charge of $1 for each vehicle for 90 days' insurance coverage against fire, theft, and tornado.[28]

Standards for Used-Car Loans

It was stated previously that wholesale financing of used cars is of recent origin. This fact, in addition to several other important factors, has prevented standardization of lending practices. Among these factors at least two are of considerable importance.

In the first place, strong opposition has been accorded the wholesale financing of used cars by the conservative finance companies. For example, General Motors Acceptance Corporation has steadfastly refused to floor plan used cars, on the ground that the dealers should be in a financial position to carry at least their used-car inventories. Commercial Investment Trust, Universal Credit Corporation, and Commercial Credit Company delayed this practice as long as they could. Only when further refusal to grant the automobile dealers this service would have entailed a loss in their volumes of retail-sales paper did they offer the dealer this accommodation.[29]

In the second place, the used-car field lacks standards of value. Since new cars have a standard market value, loans can be granted on them easily. However, in the used-car market, two cars of the same

[27] In conversation with the author, April 28, 1939, a Cleveland Trust Company account executive stated that some companies quote 4 per cent but discount the loan. Since the cars are sold and the loan on each car is liquidated at the time of sale, the actual rate of interest may be double the quoted rate. The Cleveland Trust Company operates on a straight 4 per cent actual interest charge on new cars.

"All three of the nationally operated finance companies, G. M. A. C., C. I. T., and Commercial Credit, have reduced the rate charged dealers for new car floor plan accommodation to 4 per cent simple interest plus $1 per car. Most of the larger independent companies have met the rate, but it is believed that they are handling the business without profit, if not at an actual loss, inasmuch as the big three have the benefit of more favorable interest rates on their borrowings from banks. This is only one phase of the remorseless battle for business since freer competition went into effect." "Floor Plan Rate Cut," *Motor*, December, 1938.

[28] G. M. A. C. grants 6 months' insurance coverage for $1.

Finance companies which compete with G. M. A. C. for business of General Motors dealers meet this rate, according to a member of the staff of the Cleveland Trust Company.

[29] "Loans will be made on used car stocks based on NADA average value . . . . Commercial Credit Company states that it has 'no official plan for used car wholesale financing as such, but we do advance against used cars where the situation warrants.' " "C. I. T. to Finance Dealers' Trade-Ins," *Automotive Industries*, LXXIV (1936), February 8, 167.

year and model may vary greatly in their market values, necessitating individual appraisal before a loan can be extended.

Since wholesale financing standards are nonexistent for the industry each finance company works out its plan, or copies the plan of a competitor. One firm extends the cash or wholesale value[30] of the used cars in stock, with a provision that the loan be reduced 10 per cent for every 30 days that the car remains in inventory.[31] Another finance company extends 100 per cent of the retail value on the models of the current and previous year (1939 and 1938 models), 90 per cent on 1937 models, 80 per cent on 1936 models, 70 per cent on 1935 models, 60 per cent on 1934 models, and no loans on cars over five years old.[32] Variations of these methods are used by competing finance companies.

The heavy overhead expenses in keeping a book inventory and a physical check on the inventories of dealers explain the reason for the unprofitable nature of wholesale financing. A further difficulty has been forced upon the finance companies in Ohio by the passage of the Ohio Certificate of Title Act, which requires a manufacturer's certificate for each car, commonly referred to as a "birth certificate."[33]

Briefly, the idea is that the manufacturer shall issue, for each motor vehicle sold to a dealer, a certificate identifying the vehicle, and giving the name and address of the dealer to whom it is sold. If this dealer sells to another dealer, he shall endorse the certificate to his purchaser, and so on, until the vehicle is disposed of to the consumer.

If the finance company should insist upon holding this manufacturer's certificate until the dealer has liquidated his indebtedness, the dealer would suffer the embarrassment, at the time of making a sale, of being unable to pass title to the car. The larger finance companies have recognized this feature, and have permitted the better dealers to keep the certificates from the manufacturers, thereby sacrificing control of the security for their loans.[34]

When this is done, the finance companies find that it is not only necessary to take an inventory of cars on which they have granted

[30] Cash value and wholesale value generally are regarded as synonymous, and are usually approximately 35 per cent below the current retail market price. The NADA Guide Book quotes a wholesale price, while the National Used Car Market Report, Inc., gives a cash value. Some variations exist, but for general purposes they are the same.

[31] This is the plan followed by the Cleveland Trust Company, Cleveland, Ohio.

[32] Conversation with a representative of The Sun Finance Company, Cleveland, Ohio, April 24, 1939.

[33] *Time Sales Financing*, February, 1939, p. 7.

[34] In conversation with the author, July 18, 1939, Mr. Edward L. Payton, Cleveland, Ohio, national consultant for automobile dealers and automobile finance companies, stated that "the major losses of finance companies are sustained in wholesale financing on account of conversion."

loans, but also to check the presence of the manufacturers' certificates which the dealers could hypothecate for other loans.

Obtaining Wholesale Financing Aid from More than One Source

Another question which might be raised is whether or not a dealer can obtain financial aid from more than one finance company. Since General Motors Acceptance Corporation will not floor-plan used cars, General Motors dealers who are in need of aid in financing their used cars must turn to other finance companies. Some finance companies, however, insist on exclusive wholesale financing arrangements, because they regard a single arrangement to be less troublesome and more easily administered.[85]

Relationship of Wholesale Financing to Retail Financing

It has been pointed out that wholesale financing, although large and important, is unprofitable for finance companies, and that the finance companies render this service primarily in order to obtain the profitable retail paper. Since this is true, it is advisable to compare the volume of wholesale financing with the volume of retail paper purchased. Table 30 gives the total wholesale loans and total retail paper purchased by the automobile-sales finance companies.

Table 30—WHOLESALE LOANS AND RETAIL PAPER PURCHASED BY AUTOMOBILE-SALES FINANCE COMPANIES, 1929-1938

(Source: "Composite Experience of Sales Finance Companies and Automobile Dealers," National Association of Sales Finance Companies [Chicago, Illinois, 1939]. *See* Appendix E.)

(Million Dollars)

Year	Total Wholesale Loans	Total Retail Paper Purchased by Automobile Finance Companies
1929	678	1,617
1930	661	1,228
1931	554	950
1932	330	536
1933	500	627
1934	907	894
1935	1,403	1,158
1936	1,704	1,716
1937	1,887	1,721
1938	991	1,011

[85] The Cleveland Trust Company refused to work under a dual arrangement, according to a member of the staff.

This table shows the growth of wholesale financing in relation to retail financing. In 1929, wholesale financing amounted to about 42 per cent of the retail paper purchased; in 1937, wholesale financing exceeded retail financing, and, in 1938, wholesale and retail financing were about equal.

If these amounts are of a similar nature, the question arises as to how a finance company can operate profitably, since wholesale financing in itself is regarded as unprofitable. The answer lies in the turnover rate of wholesale loans. While wholesale loans for a year may equal in total the retail-sales paper, the wholesale loans are of much shorter duration.

The automobile dealer seeks to turn his inventory 12 times a year; the average turnover probably is about 8 times a year at the present time.[36] If such is the case, the finance companies would need to have only one-eighth as much capital tied up in wholesale finance loans as the figure for the annual volume indicates. For example, in 1938, they would have had $124 million invested at one time. This, of course, assumes that the inventories of dealers remain fairly constant.

On the other hand, retail-sales paper has a much slower turnover rate; the average retail note runs approximately 15 months.[37] Since the notes are paid off monthly, the actual turnover would take place about every 8 months, indicating that instead of having needed $1,011 million to carry this much paper, approximately $537 million was needed in 1938. Hence, between 4 and 5 times as much capital is tied up in retail finance paper as in wholesale loans on inventories.

This, then, means that the profits of the retail paper must compensate for the 16 per cent to 20 per cent of finance companies' funds which are unprofitably invested in wholesale paper.

Significance of Wholesale Financing to Retail-Sales Paper

Wholesale-financing loans supply the automobile dealers with approximately 40 per cent of the funds they need to finance their car inventories.[38] Since not all dealers avail themselves of this service, and some dealers do so only to a limited extent, it can be inferred that

[36] Milan Ayres, "The Growth of Wholesale Financing," *Time Sales Financing*, April, 1936. p. 6. *See also* Chapter IX, "Used Automobile Inventories of Dealers."

Dealers in Chicago experienced a unit turnover of 9.5 times a year and a capital turnover of 8.2 times a year.

[37] G. M. A. C.'s experience for 1938 showed an average of 16.22 months for new cars financed, 12.42 months for used cars financed, and an overall average of 13.73 months. But since G. M. A. C. is more conservative in its operations, a slightly longer period is probably justified for the average of all financing. (Conversation with an executive of General Motors Acceptance Corporation, Cleveland, Ohio, July 14, 1939.)

[38] *See* Table 30, *supra.*

finance companies, in many instances, floor-plan more than 50 per cent of the inventories of many dealers.[39] Such dealers are in a position where they feel that they are compelled to discount their retail paper with those finance companies rendering them wholesale finance accommodations. This has a significant bearing on retail-sales financing.

[39] Mr. A. N. Benson, then Secretary of the National Automobile Dealers Association, in a personal interview, December 28, 1938, Detroit, Michigan, stated that he believed finance companies had a greater equity in the automobile dealerships of the United States than did the dealers themselves. No figures are available for proof of this statement.

Mr. T. E. Courtney, Vice President, National Automobile Sales Finance Companies, in a letter to automobile dealers published in *Time Sales Financing*, January, 1938, made the following comment: "In commercial banking and the small loan business and practically all other operations, it is never possible to borrow more than, and in a good many instances it is impossible to borrow as much as, a dollar for each dollar's worth of working capital. We find our automobile dealers borrowing anywhere from five to twenty times their capital."

CHAPTER XII

FINANCING RETAIL AUTOMOBILE SALES

When an automobile buyer purchases a car on a time-payment plan, he signs a note, or a series of notes, calling for payments on specified dates. These notes are designated as retail-sales finance paper. The customer has thus created a note which the dealer can (1) hold and collect on the due date, (2) pledge as collateral for a bank loan, or (3) discount with a sales finance company, the car serving as primary security for the loan.

The discussion of retail-sales financing lends itself to two major divisions: first, a quantitative analysis of retail financing over the past decade; second, an analysis of the components which make up the size of finance charges to consumers—(a) terms upon which the contract is based, (b) elements of a finance company's costs, and (c) insurance charges.

Trends in Retail Financing

Comprehensive statistics on retail financing of automobiles are not available, but from those gathered and published by the United States Department of Commerce and by the National Association of Sales Finance Companies, it is possible to determine the approximate amount of instalment sales, excluding, of course, those cash sales which include credit obligations arranged for through channels other than the dealers.

Table 31 presents the experience of the automobile-sales finance companies which report to the United States Department of Commerce. The data relate to approximately 68 per cent[1] of all automobiles

[1] This percentage was arrived at in the following manner: The total number of cars sold on instalments was obtained by multiplying the registered number of new and used cars sold by 52 per cent and 60 per cent, respectively—the percentages of new and used cars sold on time, according to the Trade Survey of the National Automobile Dealers' Association. The data presented by the National Association of Sales Finance Companies in its composite table on the value of cars financed ($1,011,000,000) represent 67.9 per cent of the value of all cars financed. The computations are outlined below:

Type of Car	*1938 Sales Registrations (Number)*	*Per Cent Financed (Per Cent)*	*Total Financed (Number)*	*Average Value of Note (Dollars)*	*Total Retail-Finance Paper (Dollars)*
New cars	2,256,370	52	1,173,000	630	739,000,000
Used cars	4,540,000	60	2,724,000	275	749,000,000

Thus, $1,011,000,000 is 67.9 per cent of $1,488,000,000 (total new- and used-cars finance paper).

TABLE 31—RETAIL-SALES FINANCING OF NEW AND USED CARS, 1928-1938[1]

(Source: Adapted from *Composite Experience of Sales Finance Companies and Automobile Dealers,* National Association of Sales Finance Companies, Chicago, Illinois, 1939.)

Year	Per Cent of Cars Sold on Instalment (Per Cent)			Number of Cars Financed (Thousands)			Amount of Retail Paper (Millions of Dollars)			Average Amount per Note Purchased (Dollars)			Ratio of Used Cars Financed to All Cars Financed (Per Cent)	Ratio of Value of Used Cars Financed to Value of All Cars Financed (Per Cent)	Ratio of Average Value of Used-Car Notes to Average Value of New-Car Notes (Per Cent)
	New (1)	Used (2)	Total (3)	New (4)	Used (5)	Total (6)	New (7)	Used (8)	Total (9)	New (10)	Used (11)	Total (12)	(13)	(14)	(15)
1928	58.1	60.8	59.5	1,333	1,133	2,466	848	348	1,196	635	307	485	45.9	29.1	48.3
1929	62.6	65.1	64.0	1,892	1,656	3,548	1,126	491	1,617	595	297	456	46.7	30.4	49.9
1930	62.3	64.8	63.8	1,381	1,609	2,990	778	450	1,228	564	280	411	53.8	36.6	49.6
1931	62.8	60.4	61.3	1,028	1,420	2,448	570	380	950	554	268	388	58.0	40.0	48.4
1932	54.6	47.0	48.6	555	967	1,522	303	233	536	546	241	352	63.5	43.5	44.1
1933	56.8	56.8	56.8	760	1,068	1,828	392	235	627	516	220	343	58.4	37.5	42.6
1934	54.4	57.9	56.6	1,064	1,355	2,419	587	307	894	551	226	370	56.0	34.3	41.0
1935	58.0	62.6	60.8	1,334	1,792	3,126	734	424	1,158	550	237	370	57.3	36.6	43.1
1936	60.9	58.5	59.4	1,908	2,356	4,264	1,106	610	1,716	580	258	400	55.3	35.5	44.5
1937	57.2	60.1	59.0	1,747	2,453	4,200	1,035	686	1,721	593	279	410	58.4	39.9	47.0
1938	52.0	60.0	57.0	824	1,793	2,617	519	492	1,011	630	275	386	68.5	48.7	43.7

[1] The data in this table are based on a sample which, in 1938, represented 67.1 per cent of all cars financed and about 68 per cent of the value of all cars financed. *See* footnote 1, p. 197.

sold on the instalment plan; consequently, they can be regarded as indicative of automobile financing trends.

The percentage of instalment sales to total sales has remained fairly constant throughout the past eleven years (Table 31, Columns 1, 2 and 3). Since 1928, approximately 6 out of every 10 automobile buyers have purchased their new or used cars on the instalment plan.[2] The ratio of instalment purchases in depression years dropped slightly, due, without doubt, to the uncertainty of employment and income which deterred many potential consumers from making long-term commitments.

Columns 4, 5, and 6 show the number of new and used cars financed over the eleven-year period from 1928 through 1938. More cars were financed in 1936 than in any other year in automobile history; in fact, in the sample used the 1936 total exceeded the 1929 total by 700,00 cars. However, further examination of the data shows that the number of new cars financed in 1929 and 1936 was approximately the same, and that the 700,000 increase in the number financed was attributable to the increase in used cars financed.

In 1938, more than two used cars were financed for each new car. Granting that this is exceptional because of the 1938 recession, the trend over the past eleven years shows a fairly consistent increase in the importance of the used car in the automobile industry, as seen in Chart 10.

Columns 7, 8, and 9 show the trends in the dollar volume of retail paper financed. Chart 10 shows the movement of finance paper in millions of dollars for each of the eleven years.

Columns 10, 11, and 12 present the average value of the notes purchased by finance companies. Finance companies have operated, generally, under the policy that notes should not exceed wholesale value[3] —they object to financing the mark-up of dealers.

A comparison of the average value of used-car notes with new-car notes shows that, in the years of the depression, the average used-car note dropped relatively much more than did the average new-car note, indicating much greater flexibility in the price of used cars in the depression period than in the price of new cars.

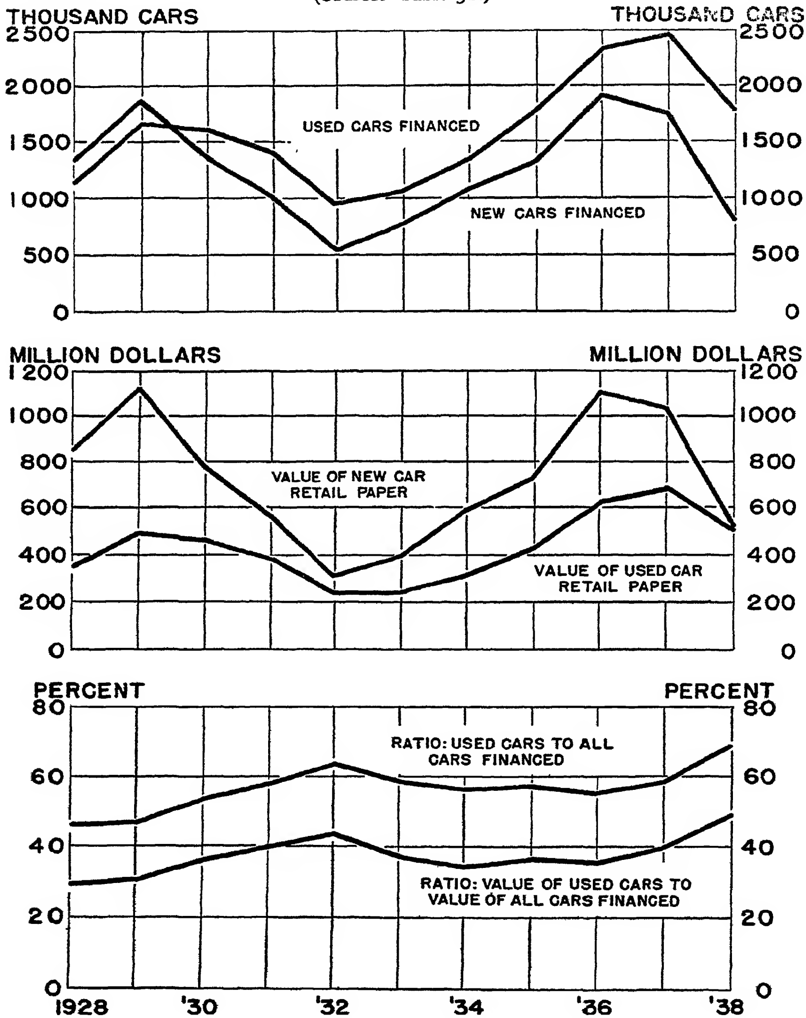
Column 15 shows the ratio, in percentage form, of the average value of used-car notes to the average value of new-car notes, and indicates

[2] This is a conservative estimate, for many cars are purchased with cash funds secured through banks, personal loans, or private borrowings. These are called cash sales, but are, in reality, time-payment sales.

[3] A comparison of the average new-car-note value with the average wholesale car value, as shown in Tables 31 and 4, respectively, *supra*, substantiates this.

that a stable relationship exists in periods of prosperity, and that the value of the used-car note drops further in periods of depression. Possibly such action is the result of lower consumer purchasing power and the necessity of dealers to liquidate their inventories.

CHART 10—RETAIL FINANCING OF NEW AND USED CARS, 1928-1938
(Source: Table 31.)



Columns 13 and 14 are computed from Columns 4 to 9, inclusive. Inspection of these two columns reveals the growing importance of the used car in the finance market, in both car volume and dollar volume.

Components of Finance Charges

Standard Terms in Retail Financing

The National Association of Finance Companies, in 1924, adopted a resolution establishing standard finance terms, as follows: (1) one-third down on new cars, with 12 months to pay; and (2) 40 per cent down on used cars, with 12 months to pay.[4] At various times since 1924, these standard terms have been modified. Since 1935, the following terms have been regarded as evidence of sound practices: (1) one-third down on new cars, with 18 months to pay; (2) one-third down on used cars, with 12 months to pay.[5] These terms represent the practice advocated, but, like other suggested standards, no authority exists to force a finance company to adhere to it.

The basic principle of sound financing should be that the wholesale value of the automobile, at all times, be greater than the balance due on the customer's note. This would necessitate a down payment on new and used cars that would reduce the note to at least the wholesale value of the car. In addition to this, the monthly payments should be large enough to keep pace with the decline in the market value of the car. Such a policy would possess the flexibility needed in a changing market. The primary advantage of the system of one-third down is to offer the trade a rule-of-thumb method by which to operate.

Deviations from the Standard—Conservative finance companies readily discount dealers' notes when the suggested standard is complied with, but when a deviation occurs, a thorough investigation is made to determine the soundness of the credit risk.[6]

During the middle thirties, there was an epidemic of easy terms for new cars, precipitated by Chevrolet's advertisement of the 6-per-cent plan. The Ford Company retaliated with a $25-a-month plan, which, in turn, was copied by other manufacturers. In order to move used-car stocks, it was necessary to liberalize used-car terms correspondingly, but, even so, the exceedingly easy terms on new cars resulted in an increased supply of used cars, and a decreased demand for such cars.

[4] *See* historical development, in Chapter XI, *supra.*

[5] "Standard down payment, to and including 1935, means 1/3 for new cars and 40 per cent for used cars. For later years it means 1/3 for both new and used cars." *See* Composite Experience Table, Part 2, Appendix E.

[6] Persons on salaries, such as mail carriers, policemen, and school teachers, can purchase new cars with considerably less than one-third down.

Easy terms probably reached their peak in 1937; in 1938, the trend was again definitely towards safer ground—*larger* down payments and *fewer* monthly payments. This is shown by the experience of the finance companies during the past three years.

The majority of dealers and finance companies have sought to maintain the standard, or, at least, have tried to operate as close to standard terms as possible. However, dealers and finance companies, because of factory sales-pressure and finance-company competition, have been forced to deviate from good practice frequently.

Table 32—Percentage Distribution of Number of Monthly Payments on Retail-Sales Finance Paper, New and Used Cars, 1936-1938

(Source: Composite Experience Table, *loc. cit.*)

Year	Range in Months for New-Car Paper				Range in Months for Used-Car Paper			
	1 to 12	13 to 18	19 to 24	Over 24	1 to 12	13 to 18	19 to 24	Over 24
		Per Cent				*Per Cent*		
1936......	28	45	25	2	65	32	3	(a)
1937......	22	34	39	5	47	48	4	1
1938......	28	47	25	(a)	49	49	2	(a)

[a] Less than one-half of 1 per cent.

Finance companies, at various times, have been the victims of unscrupulous dealers. One of the most common practices that finance companies have to guard against is misrepresentation of the customer's equity. This misrepresentation, frequently, is accomplished by a dealer through a fictitious valuation of a trade-in. For example, a prospect wants to purchase a $600 new car, but all he has as down payment is a used car with a $150 market value, which represents an equity of 25 per cent. The contract is so written by the dealer that the new-car price is stated at $700 (accessory prices are added but the accessories are not attached), and the dealer allows $250 for the trade-in, thus permitting the down payment requirement of one-third to be met. Such practices can be adapted to used-car purchases more easily than to new-car purchases. The finance company, in case of repossession, finds that the deal was unsound from its inception.

Some of the smaller, local finance companies, too, in their competition for business, permit the dealer to grant terms which are unsound. When this takes place, the purchaser of the car usually has to agree,

through a rigid contractual arrangement, to permit the finance company to obtain a deficiency judgment, to garnishee his wages, and to attach his furniture, if any.

Elements of Finance-Company Costs

The notes which the time-sales purchasers of automobiles sign must include, besides the balance due, financing charges and insurance coverage. Financing charges must be sufficient to cover (1) the money cost, (2) the cost of securing the business, (3) the operating expenses of finance companies—repossessions, record keeping, and collections, and (4) operating profit.

Money Costs—Ample funds have been available to time-sales financing institutions for some years, but the difference in rates at which this money is available to the various financing companies has been of serious concern to the local finance companies.

In the easy-money market of the past few years, the large finance companies have been able to borrow money at call-loan rates in the New York market, with the result that they have been able to secure funds from 2 per cent to 5 per cent cheaper than the local finance companies.[7] This advantage has been hard to overcome. Here, too, lies the advantage of banks in their struggle for a share of this business.

The stronger local finance companies may answer this challenge by purchasing the majority interest in a bank or series of banks to curtail the competitive advantage.

The Cost of Acquiring Business—This cost may be classified into (a) sales and service costs, and (b) reserves, rebates, and bonuses to dealers.

At the present time, General Motors is the only automobile manufacturer which has a subsidiary finance company. All General Motors cars are sold to General Motors Acceptance Corporation when they are run off the production line; dealers, in order to secure cars, must negotiate with G.M.A.C., which, in turn, offers to wholesale-finance these cars for the dealers. Since it is true that the financing agency which grants wholesale-finance accommodations is in a decidedly advantageous position to secure the retail-sales paper, the cost to G.M.A.C. of purchasing the retail finance paper of dealers is probably less than for any other finance company.[8]

[7] In 1936, money costs of $1 per $6 of gross income existed for the smaller companies, and $1 per $10 of gross income for the larger companies. Harvey W. Huegy and Arthur H. Winakor, *op. cit.*, p. 43.

[8] G. M. A. C. does not purchase retail paper from any dealers except those handling General Motors cars.

Until the Consent Decree of November 15, 1938,[9] not only did the representatives of G.M.A.C. urge the use of G.M.A.C. financing, but General Motors sales executives and fieldmen pressed dealers into using this service. Also, prior to that date, Commercial Investment Trust, Universal Credit Corporation, and Commercial Credit Company[10] were in a somewhat similar position, receiving cooperation from the manufacturers in handling wholesale arrangements for dealers. This gave the finance companies a real advantage in the competition for retail paper. Whether or not this official severance of factory affiliation is significant is difficult to determine until sufficient time has elapsed to establish the effectiveness of the Consent Decree.

Sectional and local finance companies, however, have had to sell their services aggressively to dealers. Only by offering something beyond that which the larger companies offered has it been possible for them to share in the business. Among the practices pioneered by these finance companies to secure business are the following: (1) cheaper wholesale financing accommodations; (2) willingness to floor-plan used cars; (3) willingness to take a percentage of retail paper at less than standard terms, and (4) nonrecourse paper.

The first three of these practices have been discussed at length in previous pages. Nonrecourse paper will be discussed in connection with repossession losses and costs.

Another service is that of financing the dealers' demonstrators. Salesmen may purchase these cars from dealers at the wholesale price. The finance company, in turn, will finance the wholesale price of the new car, requiring the salesman to liquidate the balance at the rate of 3 per cent monthly, and to pay interest on the balance due at the annual rate of 6 per cent. Sales-finance contracts on demonstrators may require the salesman to liquidate the contract through the resale of the demonstrator after 3 months, 6 months, or some time prior to the close of the model year. Seldom do the contracts extend beyond 10 months.

[9] *See* discussion of Consent Decree, *infra*.

[10] The following is an excerpt from a letter dated September 16, 1937, from Packard Motor Car Company of Chicago, signed by C. E. Stube, Wholesale Manager, addressed to all dealers:

"Direct Factory shipments or release from our warehouse will from this time on be invoiced to and paid for by Commercial Credit Company. When you are advised by Commercial Credit that our invoice has been paid, you will either sign the customary Trust Receipt papers and issue your check for whatever down payment is required so as to establish the item in their records as a Floor Plan or Demonstrator transaction, or if you prefer not to finance the shipment, your check for the invoice price will be accepted without additional cost to you PROVIDED you regularly discount your retail paper through Commercial Credit Company. If your retail paper is not offered to Commercial Credit Company, but instead to a local bank or finance company, the standard charge for handling will be $1.00 flat per unit."

Since demonstrators are turned frequently, and involve considerable clerical work and collection expense, the annual rate of 6 per cent interest charged by the finance companies involves little, if any, profit, and must be regarded as a service rendered to the dealer.[11]

Operating Expenses of Finance Companies

Repossessions—If a customer defaults in his time-payment obligation, a note holder can seek to liquidate his claim through repossession of the car which serves as security. The general assumption is that the sale price of the repossessed car would be adequate to meet the remaining obligation; however, experience has shown this not to be the case.

TABLE 33—PERCENTAGE OF CARS REPOSSESSED AND AVERAGE LOSS PER REPOSSESSION, 1928-1938

(Source: Composite Experience Table, *loc. cit.*)

Year	Percentage of Cars Repossessed			Average Loss per Repossessed Car		
	New	Used	All Cars	New	Used	All Cars
	Per Cent	*Per Cent*	*Per Cent*	*Dollars*	*Dollars*	*Dollars*
1928....	2.9	5.6	4.1	—	—	59
1929....	3.0	5.6	4.2	—	—	63
1930....	3.7	6.9	5.4	—	—	65
1931....	4.5	11.4	8.5	—	—	47
1932....	5.7	13.1	10.4	—	—	59
1933....	2.8	7.8	5.7	—	—	42
1934....	2.9	7.2	5.3	64	45	50
1935....	2.7	10.7	7.3	67	53	55
1936....	2.2	7.5	5.1	61	49	51
1937....	4.1	13.2	9.4	53	52	52
1938....	6.3	19.2	15.1	70	58	62

Data on average losses on repossessed cars, shown in Table 33, substantiate this conclusion. Table 33 shows the percentage which the number of repossessed cars bears to all cars financed for the period 1928-1938, and the average loss, in dollars, sustained through repossessions of new and used cars.

The number of repossessions of used cars was more than three times as high as the number of repossessions of new cars in 1938, the highest they had been over the past decade. There are several reasons which may be given for the high rate of repossessions in used cars: (1) Used cars are usually purchased by people of small resources who, on the average, have less foresight in their spending policies than do those with higher incomes; (2) used cars are not always properly reconditioned, with the result that consumers are dissatisfied and

[11] Conversation with the Assistant Manager of the Cleveland Office, General Motors Acceptance Corporation, May 16, 1940.

unwilling to continue payments; (3) used cars often have been overpriced to parallel overallowances on trade-ins, but consumers later believe they have been overcharged; (4) little or no down payment has been required, with a resulting attitude of carelessness on the part of the purchaser towards his contractual relationship; (5) loss of the car by repossession no longer places a stigma on a man's character or credit reputation.

The amount of the losses through repossession becomes more significant when it is related to the total volume of automobile retail-sales finance paper. Table 34 shows this comparison. Repossession losses on new cars account for a loss of less than 1 per cent, but the losses on

Table 34—REPOSSESSION IN RELATION TO RETAIL-SALES FINANCING OF NEW-CAR SALES AND USED-CAR SALES, 1934-1938
(Source: Computed from Composite Experience Table, *loc. cit.*)

Year	Total Number of Car Sales Financed (1)	Repossessions As a Per Cent of Total Sales (2)	Value of Retail Finance Paper (3)	Average Loss per Repossessed Car (4)	Total Repossession Losses (Col. 1 × Col. 2 × Col. 4) (5)	Repossession Losses as Per Cent of Total Retail Paper (Col. 5 ÷ Col. 3) (6)
			New Cars			
1934..	1,064,000	2.9	$587,000,000	$64	$2,000,000	0.341
1935..	1,334,000	2.7	734,000,000	67	2,400,000	0.327
1936..	1,908,000	2.2	1,106,000,000	61	2,600,000	0.235
1937..	1,747,000	4.1	1,035,000,000	53	3,800,000	0.367
1938..	824,000	6.3	519,000,000	70	3,600,000	0.694
			Used Cars			
1934..	1,355,000	7.2	307,000,000	45	4,400,000	1.433
1935..	1,792,000	10.7	424,000,000	53	10,200,000	2.406
1936..	2,356,000	7.5	610,000,000	49	8,700,000	1.426
1937..	2,453,000	13.2	686,000,000	52	16,800,000	2.449
1938..	1,793,000	19.2	492,000,000	58	20,000,000	4.065

used cars are rather substantial in proportion to total used-car paper (4.06 per cent), and adequate reserves for repossessions must be set aside to meet them.[12]

It should be realized that these figures are national figures, and that certain areas may experience far greater losses than the national average would indicate, because of depressed industrial or agricultural conditions locally.

Provisions for Repossession: Recourse, Repurchase, and Nonrecourse —Since the dealer makes the time-sales contract (a contract that

[12] It must be recognized that repossessions of any one year cannot be charged solely to the sales of that year. Probably a sizeable percentage of 1938 repossessions was the result of 1937 sales.

includes the balance due on the purchase, insurance protection on the vehicle, and finance charges) with the automobile buyer, he is at liberty to finance the paper himself, or to discount it with a finance company. In the present market, he can (1) discount it with recourse, (2) with a repurchase agreement, or (3) without recourse.[13]

The percentage of retail-sales finance paper in each of these classifications is uncertain.[14]

All automobile retail paper was recourse paper at the beginning, and the dealer assumed the responsibility of the obligation if the buyer failed to fulfill his contract.

Today, for the most part, only the large companies operate on a recourse basis, and of these, only the General Motors Acceptance Corporation operates exclusively in this manner. However, General Motors Acceptance Corporation has been forced to make some concessions. Instead of causing the dealer to take the car back into stock at the unpaid-balance price, if the value of the car is below this figure, the dealer pays what might be termed the current wholesale value of the car at the time of repossession. The other large national companies operate on both a recourse and nonrecourse basis, adjusting their terms to meet the risks involved and the competitive conditions in the local market.

The sectional and local finance companies operate on both bases, but primarily on a nonrecourse basis. On nonrecourse paper, these companies assume the full responsibility, and should repossession take place, they market the cars.

A hybrid form of recourse paper occasionally is noted: A finance company may discount a note of $500 for $400, keeping $100 in reserve in case of default. A compromise type of paper, known as "Repurchase Paper," is also used. Here, arrangements provide that the dealer shall repurchase the car from the finance company, in case of repossession, at a fair valuation in the current market. Such a

[13] "*Without Recourse*—The finance company may buy the time-sale instrument from the dealer without any recourse whatsoever against him in the event the purchaser defaults in his purchase. In such a case, if the purchaser defaults the finance company must repossess the car, and if the car is not then worth the unpaid balance, the finance company suffers the loss.

"*With Recourse*—On the other hand, the dealer may sell the time-sale instrument to the finance company and assign it under an agreement wherein he agrees to perform the contracts of the buyer if the buyer fails. In this type of purchase, if the buyer defaults, the dealer is usually required to pay the finance company the unpaid balance owing by the purchaser at the time of default, whether the automobile is or can be repossessed. . . . ." *The Business of Automobile Financing, op. cit.*, p. 5.

[14] Estimates of the amount of recourse paper sold in relation to all retail-sales paper vary from 50 per cent to 60 per cent, but no assurance exists that these figures are correct.

practice relieves the finance company of retailing its repossessions or of auctioning them to dealers.

Valid arguments can be presented for recourse and for nonrecourse finance paper. The recourse companies insist that it is the duty of the dealers who make the contracts with the purchasers to select the risks, and to sell only to those who can meet their contracts, acknowledging, of course, that all time-sales contracts involve unforeseen hazards. General Motors Acceptance Corporation holds that if the dealer assumes the repossession losses, he will exercise greater discretion in granting credit. The soundness of this policy is attested by the fact that its finance charges are the lowest of all finance companies,[15] and are used as a measuring stick in the trade.

The dealer, on the other hand, feels that if he can discount his paper without recourse he can lift a heavy contingent liability from his business. The repossessions which resulted from the depression, and from the more recent recession, convinced him of this.

Repossession Reserves, Rebates, and Bonuses—Until 1925, the finance companies limited their services to financial counsel and aid in keeping inventory and control records. At that time, a new element of competition among finance companies developed. The financing interests had gained sufficient experience in automobile retail paper to determine that the charges made to cover reserves for repossessions were more than adequate. Two avenues presented themselves for competitive advantage: (1) lowering the finance rates, thus giving the benefit to the consumer; (2) sharing these profits with the dealer from whom the retail paper originated.[16] Since the consumer seemed indifferent to finance charges, the greatest competitive advantage lay in sharing the profits with the dealer.

The nonrecourse companies which were faced with this type of competition were forced to provide a similar income for dealers or lose their businesses. Since 1925, dealer reserves, rebates, or bonuses (familiarly known as "kick-backs") have been a steady and substantial part of the dealer's income.

Reserves and rebates to dealers are higher in used-car financing than in new-car financing. This is possible because of two primary sets of conditions: (1) The factories have publicized new-car rates and have made marked efforts to keep these low, so that finance charges would not be a deterrent in the sale of new cars—this, necessarily, has

[15] *See* discussion of rate charts *infra*.
[16] *The Business of Automobile Financing, op. cit.*, p. 16.

reduced the amount available for "kick-backs" to dealers on new cars sold; (2) factory indifference to used-car-finance rates, lack of public recognition of any standards in charges for used cars, competition for used-car retail-sales paper with its higher rates, and probably the indifference of used-car buyers to the amount of the charges have permitted higher reserves, rebates, and bonuses to the dealers.

Since these "kick-backs" are used as a competitive tool to secure business, and vary considerably, it is impossible to determine the exact amount which consumers pay for this in their finance charges. Two methods may be used to arrive at an approximation of the amount collected from consumers: (1) accepting, as a basis, the comment of the trade that the return to the dealers approximates 3 per cent of the note purchased; (2) using the General Motors Acceptance Corporation figure of a $9 reserve for each car financed.[17]

If the current return of 3 per cent is accepted, it is necessary to use the total amount of retail finance paper as a base. The estimated total value of retail finance paper for 1938 was $1,488,000,000,[18] and 3 per cent of this amounts to $44,600,000. By using General Motors' more conservative figure of $9 per car financed in 1938[19] as a basis for determining the total, an estimate of $35,073,000 is arrived at.

How much of these reserves represents clear profit to the dealer can be estimated from the annual survey of dealers made by the National Automobile Dealers Association.[20] This survey showed that dealers earned a reserve of $10.74 per new car sold in 1938. This figure represents a net amount after repossession losses and expenses for new and used cars have been deducted. Assuming this figure to be a fair sample for all dealers, the total reserves earned by all dealers on their sales of cars was $24,233,000, based on sales of 2,256,370 new cars in 1938. These results indicate that finance reserves paid to dealers are at least twice as large as they need to be to take care of repossession losses.

A comparison of these earned reserves, amounting to $24,233,000, with the estimated total finance charges of $112,000,000 for 1938[21]

[17] "General Motors III, How to Sell Automobiles," *Fortune*, February, 1939, p. 106. It is stated, in this article, that, in 1938, General Motors put $9 into finance reserves for each car financed. This ultimately reverted to the dealer, whether or not the car was repossessed.

[18] *See* footnote, p. 197.

[19] The general comment of those in the business is that General Motors' reserves probably are as low as those of any finance company.

[20] *Management "Indicators" for Automobile Dealers*, published by the National Automobile Dealers Association (Detroit, Michigan, 1939).

[21] In order to arrive at the estimated finance charges, the current charge of 6 per cent was made on estimated new-car-sales paper, and 9 per cent, the usual charge on used-car paper, was applied. The result was $112,000,000 as an estimate of the finance charges for time-sales contracts in 1938.

indicates that from 20 per cent to 25 per cent of the finance charges placed upon consumers was in excess of justifiable charges for financing.

The findings above are substantiated by the following memorandum of the Department of Justice:[22]

> From 1925 to 1937 inclusive one company was alleged to have repaid to dealers as such, rebates more than $40,000,000, and in the year 1936 to have repaid more than $5,000,000 after collection of this sum from the public as financing charges. For the year 1936 this amounted to $10.45 on each car financed, or between 20 to 25 per cent of the average finance charge. During the year 1936, all automobile finance companies collected more than $60,000,000 of excess finance charges later rebated in this manner.
>
> In addition to this, in one case the finance company entered into a direct contract by which the automobile manufacturer agreed to deliver the business of its dealers and receive a percentage of the net profits of the finance company. Under this system the manufacturer received from the finance company $1,700,000 or in 1936 the equivalent of $2.65 on each car financed.[23]

The survey of 1938,[24] made by the National Automobile Dealers Association, showed the dependence of automobile dealers on finance-company reserves, rebates or bonuses.[25] In the six years, 1933-1938, automobile dealers showed a profit, on the average, but if the earned finance reserves were deducted, losses would have been shown in the years 1933, 1934, and 1938.

It is also interesting to note that from 1934 the amount of the "kick-back" netted has steadily climbed from $5.55 per new car sold in 1934 to $10.74 per new car sold in 1938.

The following illustration shows how reserves, rebates, and bonuses enter into a time-sales-financing contract. Assume that an average balance due on a new car purchased on time is $500. The finance charges may be $29.92, if the contract has been written for 12 equal monthly instalments.[26] The total which the consumer would owe would be $529.92. The finance company would then pay the dealer $509.00 for the note, which would yield the dealer $9 more than he would get on a cash deal. Under these conditions, it is easily understandable why dealers prefer time sales to cash sales.

[22] "Memorandum of the Department of Justice Concerning Their Activities in the Way of Certain Proceedings Against Alleged Violations of the Anti-Trust Laws," *Congressional Record,* February 16, 1938.

[23] From information known about the national finance companies, it may be readily inferred that the first company referred to was General Motors Acceptance Corporation; the second, the Chrysler Corporation, which, as was pointed out in the historical development, had a financial interest in the Commercial Credit Company.

[24] *Management Indicators, loc. cit.*

[25] *See* Appendix B.

[26] G. M. A. C. Rate Chart for New Cars, 1939, is used as an example of finance charges.

Since these "kick-backs" are quite generally paid either at the time the note is discounted or on the first of the following month,[27] they cannot be looked upon primarily as reserves for losses, but must be regarded as a source of income for the dealers.

One prominent Cleveland dealer of a very popular make stated that he did not finance through the factory subsidiary finance company because the finance reserves which he received from another company were greater. This additional income, however, was reinvested in better reconditioning of his used cars, and he boasted that he would be glad to prove, if called upon, that he spent more money in reconditioning his cars than any other Cleveland dealer.[28]

A second dealer claimed that reserves paid his rent and permitted him to operate more economically, thus inferring that the customer received the benefit in lower car prices.

There seems to be little doubt that the highly competitive situation among retail automobile dealers has forced the dealers to pass on to the buyers a large share of this profit. The result has been that larger trade-in allowances are granted, and the cash buyer is benefiting, while the time-sales buyer is paying, through his finance charges, for the larger allowances.

The justice of these reserves, bonuses, or rebates is debatable.[29] They have been a part of the retail sales of automobiles since 1925, and, during these years, have become an accepted practice. They have become a part of the finance companies' cost of doing business—a cost which must be passed on to the time-sales purchaser.

The chief argument in favor of these reserves is that the dealer creates the business and, therefore, is entitled to share in the profits. This seems rather unusual, for, in general, the business conception of credit extension is that it is a service which business renders without profit, and often at a loss. The objection to this practice is that those least able to pay are the most heavily burdened. This is particularly true of the time-sales buyer of used cars, for the reserve represents a larger percentage in the used-car contract than it does in the new-car contract.

The more reputable automobile dealers and the more selective finance companies do not favor the practice. Unquestionably, it is a form of commercial bribery, vicious because these reserves are limited

[27] G. M. A. C. does not pay the reserve until the account is closed.

[28] In the survey of Cleveland used-car buyers, made by the writer, it was found that buyers of used cars from this agency were a satisfied group. *See* Chapter XIII.

[29] The 1938 Consent Decree acknowledged their existence. The United States Department of Justice made no adverse criticism of the practice.

primarily by the conscience of the dealer or of the finance company. If some dealers and finance companies have a conscience, it is an expanding one. In the latter part of this chapter, the corrective measures which could be employed are discussed.

Insurance Coverage on Time-Sales Purchases—A new-car buyer who purchases his car on a time-sales contract can ascertain what his insurance charges are; the agreement generally provides for an itemized account of (1) the balance due, (2) the insurance charges, and (3) the finance charges.

The instalment buyer of a used car, however, has no such guiding standard by which to ascertain his finance charges and insurance costs. Generally speaking, the charge on the unpaid balance is 9 per cent for used cars, but the buyer would find this difficult to verify. Moreover, insurance charges are lumped with finance charges, and both are quoted as one sum.[30]

There is a logical reason for this. A new-car dealer sells one make of new car, and it is relatively easy to determine what the insurance charges for models in this line would be. But in the sale of used cars, the multitude of different makes, models, and ages of cars handled makes this a most difficult problem. This situation is further complicated in that insurance rates are quoted for a 12-month period, and the finance company, in order to protect its equity, must purchase insurance that runs concurrently with the time-sales contract. A contract may run for 14, 15, 16, 18, or 20 months instead of the conventional 12 months.

Under these conditions, if the actual cost of insurance protection were charged against each car sold, it would be necessary to put a rate manual on insurance into the hands of every automobile salesman, making him, in fact, an authority on insurance rates as well as an automobile salesman. An insurance manual is a complicated schedule, and if this burden were added to the duties of an automobile salesman, it would, at times, handicap him in consummating a sale swiftly and smoothly.

Each finance company, in order to meet this difficulty, has computed its own average insurance charge for all makes and models of used cars—weighted for the most popular makes and models—and has established a rate per $100 of the balance due. The inquiring mind may raise the question as to why two customers with cars of different values but of identical balances due pay the same charges on their

[30] The discussion of rate charts, *infra,* includes a discussion of the cost of insurance to the consumer.

balances. For example, one buyer purchases a car for $500 and makes a down payment of $300; his balance due is $200. Another makes a $300 purchase and pays $100, leaving a balance due of $200. The charges for the $200 balance due to be paid over the same period of time will be identical, but the first buyer will have insurance protection for a $500 valuation, and the second, for only a $300 valuation.

In order to arrive at an insurance charge per $100 balance due, the finance company must determine the average value of used cars, and include in its rate charges the insurance cost for this average value. It can be pointed out that the individual who makes a larger down payment is, in effect, paying lower finance charges and purchasing more insurance coverage.

Since the finance companies place millions of dollars of insurance each year, it may seem natural that they have been accorded a substantial discount by the insurance companies. While the time-sales buyer has been charged an average of the full rate, the finance companies have been able to purchase insurance for these contracts at 25 per cent to 50 per cent below manual rates.[31] General Motors Acceptance Corporation has its own subsidiary, The General Exchange Insurance Corporation. Unlike other finance companies, it does not charge the insurance-manual rates, but offers insurance to the purchasers of General Motors cars, who finance through General Motors Acceptance Corporation, at rates approximately 25 per cent below the manual rate charges. It is believed that other finance companies have insurance-company subsidiaries, but make full insurance charges on their time-sales contracts.

In an interview with the Vice President of the American Finance Company in Cleveland, the statement was made that it was doubtful whether insurance companies ever made a cent of profit in their dealings with finance companies.

The insurance angle of the financing of cars has another interesting aspect. Most automobile dealers look to their repair departments for a portion of their profits. A share of this business may come from cars which they sold on instalments, and on which instalments are still to be paid. Naturally, they are anxious to get the business paid for by insurance claims, but if the insurance adjuster shops for the best prices,

[31] The National Automobile Underwriters Association, at a meeting of its membership held on February 16, 1939, voted to place a top limit of 30 per cent on commissions paid on major automobile finance accounts, and 25 per cent on local accounts. The Association's ruling specifies that this change is to be adhered to by member companies as soon as their contracts permit them so to do, but in no event later than February 16, 1940. *American Finance News*, March 20, 1939.

either the dealer may fail to get the business or be forced to accept it at a less profitable price.

If the dealer should fail to get the business, he may blame the finance company and henceforth sell his retail paper to another finance company, which, he would hope, would have a favorable working agreement with its insurance adjusters. For this reason, the finance company may contract with an insurance company not only on the basis of insurance costs, but also on the basis of its willingness to turn the repair business, which results from damage by fire, theft, or collision, to the dealer who made the sale.

Rate Charts

The components of financing costs which the consumer must pay have been discussed. The means by which dealers are informed of these charges, and upon which dealers are instructed to base contracts for customers, are printed schedules of monthly payments, the amounts of which are classified by the number of payments and the balance due on each sale.

The development of rate charts in itself affords an interesting study of the relationship between the automobile dealer and the finance company. In the early stages of automobile time-sales financing, the finance companies instructed dealers to add a flat percentage of the balance due to the contract. As contracts of varied lengths, such as 16, 18, and 20 months, became more common, it was difficult for dealers to determine the proper monthly instalment charges, and finance companies met this situation by developing printed schedules of monthly charges, known as "Rate Charts," to inform dealers of the amounts it would cost their customers to finance contracts over varying periods of time.

Gradually, the purpose of these rate charts has changed from that of providing information on charges to the dealers to a competitive tool issued by finance companies to bid for the dealers' retail paper. Dealers are in a strategic position to direct retail paper towards one of several finance companies, and these companies have printed the charts to please dealers. With few exceptions, finance companies publish several rate charts each, giving different schedules of rates, and dealers are permitted to select from them in quoting finance rates to their customers. The schedules which the dealers use, of course, determine the "kick-backs" to them. Frequently, the selection of the rate chart used depends upon the risk involved in discounting the paper. These charts are never dated, and are issued whenever a finance company feels that competitive conditions demand new ones.

This situation is possible because it has been only the occasional customer who has asked either for the name of the finance company which is to handle his time-sales contract or has made any real effort to ascertain whether or not he was obtaining his financing charges at the lowest possible cost.

In an investigation of practices in Cleveland, one finance company was found to have five different sets of rate charts for new and used cars. Another had three schedules, and a third presented a dealer with a master chart, with the understanding that the finance company must have the basic rate of the master chart, and that it would be glad to have a chart printed for that dealer, in which the dealer could include whatever "kick-back" he so desired.

Under such conditions, it is most difficult to present a fair comparison of rate charges among the various companies, for unless one is able to collect all of the rate charts which all companies have in effect at one time, a comparison of their rates may render an injustice to some companies, and place others in a more favorable light than they deserve.[32]

Table 35—Financing Charges on New Cars: Survey of Selected Rate Charts, 1939

Company	Balance to Be Financed over 12 Months						
	$200	$250	$300	$350	$400	$450	$500
G. M. A. C.	211.92	264.96	318.00	370.92	423.96	477.00	529.92
Cleveland Trust .	212.00	265.00	318.00	371.00	424.00	477.00	530.00
Morris Plan Bank	211.92	264.96	318.00	370.92	423.96	477.00	529.92

Summary of Rate Charts in Use—Table 35 presents a sample cross section of the new-car charts, using a payment plan of 12 months. It shows the difference in the charges of various rate charts in use by Cleveland dealers.[33]

The new-car finance charges seem to be well standardized. This probably has been the result of the wide publicity given to finance charges on new cars. The 6-per-cent plan, publicized by the major finance companies and the manufacturers, without doubt has had its influence.[34]

[32] In conversation with the writer, an executive of the American Finance Conference stated, when asked whether association members filed their rate charts with the association, that it would be next to impossible to keep pace with the changes. *Loc. cit.*

[33] If this table is prejudicial to any company, it is without intent.

[34] In 1937, the Federal Trade Commission, upon the complaint of local and regional finance companies, ordered that this type of advertising be discontinued, inasmuch as it was misleading the consumer in the belief that he was obtaining finance charges at 6 per cent actual interest. Despite this order, the public still regards this as the standard rate, and dealers frequently point to their finance charges as meeting this standard.

Table 36 presents a sample cross section of the used-car charts of ten representative finance companies, including national, regional, and local automobile financing institutions.[35]

By deducting the balance to be financed from the total amount payable as shown in Table 36, the finance and insurance charges can be obtained. A summary of the ranges in finance and insurance charges for used cars, on a 12-month basis, is presented below:

Balance to be Financed	*Low Charge*	*High Charge*
$100	$26.00	$37.40
200	43.60	61.84
300	48.84	80.88
400	50.96	98.60
500	58.96	121.60

The range in charges shows the wide variations that exist in the finance charges for used cars. On a $500 balance, the most expensive charge is more than double the lowest rate offered.

Insurance charges are not divulged in any of these printed rates,[36] but an analysis of G.M.A.C. rates, which are the lowest quoted, shows an increase of only $15.36 in total charges between $200- and $500-notes, indicating, at least, that insurance costs per $100 would not be in excess of $5, and, in all probability, would be considerably less.

Further support of this can be found in a comparison of the new-car finance charges which do not include insurance with the used-car finance rates which do. G.M.A.C.'s new-car finance charges on a $500 balance are $29.92. The same company's used-car charges total $58.96 on a $500 balance, a differential of $29.04. Since used-car rates are admittedly higher, insurance charges must be less than $29.00.[37]

Reflection of Risk in Finance Charges[38]—A superficial analysis would indicate that some companies might be charging excessively for the services they render. Admitting that in many cases these charges are enlarged to include large dealer reserves, in other cases, however, higher charges are well justified. Credit risks do vary, and where numerous repossession losses are entailed, a corresponding charge is necessary. For example, a Cleveland dealer discounts his paper with

[35] If this table is prejudicial to any company, it is without intent.

[36] Correspondence with four state departments of insurance as to whether they had schedules of insurance charges by finance companies revealed that they had no information. G. M. A. C. and C. I. T. definitely evaded the question in correspondence with the writer.

[37] The kinds and types of insurance sold by various finance companies are known to vary. Some of the less scrupulous companies merely provide sufficient insurance to cover their investments; the more reputable companies cover the entire value of the car.

[38] Rate charts do not specify whether the paper is purchased with or without recourse.

Table 36—FINANCE CHARGES[a] ON USED CARS: SURVEY[b] OF SELECTED RATE CHARTS, 1939

Financing Institutions	Balance to Be Financed over 12 Months								
	$100	$150	$200	$250	$300	$350	$400	$450	$500
National									
G. M. A. C.	128.04	183.60	243.60	297.00	348.84	399.36	450.96	504.96	558.96
C. I. T.	131.52	186.90	245.28	302.40	359.52	416.76	472.92	530.04	586.68
Local Banks									
Cleveland Trust Co.	126.00	191.50	248.00	305.00	358.50	412.00	465.00	520.50	576.00
Morris Plan Bank	133.32	194.88	252.60	308.76	363.72	420.96	476.64	531.60	588.12
Regional									
National Bond	135.60	193.80	252.00	312.48	373.08	433.56	494.04	554.52	615.00
Associates Investment	133.20	192.00	249.00	306.60	363.00	424.80	484.20	545.40	604.80
Local									
Sun Finance	133.20	192.00	249.60	308.40	368.40	428.40	487.20	547.20	607.20
Colonial Finance		190.80	249.60	308.40	368.40	428.40	487.20	547.20	607.20
Ohio Loan and Discount	135.00	201.48	261.84	323.88	380.88	442.20	(Call	nearest office)	
Mutual Finance	137.40	197.40	257.40	316.20	375.00	438.00	498.60	561.60	621.60

[a] These charges, with the exception of balances of less than $130, include insurance charges. General Motors Acceptance Corporation insures balances of $100 and up.

[b] Selected from rate charts published by 24 different finance companies doing business in Cleveland.

three organizations: Central National Bank, General Motors Acceptance Corporation, and the Globe Finance Company. The first two institutions take reasonable precautions in the paper they discount. A rejected deal, or a deal which involves a doubtful risk, is handled through the Globe Finance Company on a nonrecourse basis. These questionable deals not only involve large repossession losses, but also include heavy collection expenses, necessitating larger finance charges than are required by the more selective agencies.

Frequently, dealers who are unable to finance a deal through the companies with which they currently discount their paper will call up various finance companies and ask whether such paper would be discounted.[39]

If a finance company is anxious for business, and feels that this might be an entering wedge towards securing more of this dealer's paper, it might accept the deal; however, in such a case, it would be apt to use a high finance rate chart.

Many local finance companies aid the dealers in the sale of low-quality used cars by assuming questionable credit risks. In this way, they grade the various classes of risks that fall below the standard requirements of the larger, more selective finance agencies. Risks that deserve better rates than the standard rates are at least being given special attention. Why should an individual whose initial payment represents 50 per cent or more of the car's value be called upon to bear the same charges per $100 due as the man with a 33.3 per cent equity? Recognizing that this situation was inequitable, and that a differential charge would be an excellent wedge towards getting more of the desirable business, a group of finance companies operating in non-competitive areas, under the leadership of Mr. Owen L. Coon,[40] inaugurated the following arrangements and offered them to the public in June, 1939:

Down Payment	*Annual Rate Charge on Balance Due*
60%	3%
50	4
33.3 - 40.0	5
25.0 - 33.3	6

[39] While interviewing a finance-company executive on April 28, 1939, a telephone call interrupted the interview. A dealer asked if that finance company would finance a balance of $216 on a 1936 Ford DeLuxe Coupe. A quick check of the *Guide Book* showed the wholesale value to be $185. The response was that if a furniture lien could be included it might be considered. Only the local or regional companies would accept this type of business.

[40] President, American Finance Conference, and Chairman of the Board, General Finance Corporation, Chicago, Illinois.

These accommodations are given on new cars only, but this service represents the first public acknowledgment that risks above the standard terms should also be graded and charged according to their credit rating.

This program has more to it than merely seeking justice for the preferred buyer; it is a direct effort to counteract the movement on the part of banks towards personal loans to the preferred group, which, because of economic position or earning capacity, can readily obtain these loans. The appeal is directed to dealers to sell these prospective buyers on finance-company services, and so, in a measure at least, protect the dealers' finance reserves and the repair business which insurance companies affiliated with the finance companies[41] give to dealers who created the business.

"Finance Packs"

Some unscrupulous dealers have sought to increase their profits by making extra charges of which the customer and the finance company may or may not be aware. The members of the Cleveland Finance Club[42] defined "finance pack," in an agreement made with the Cleveland Better Business Bureau, April 1, 1937, as follows: "A pack is any amount over and above the published rate chart mutually agreed upon for discounting automobile paper between the finance company and the dealer." These packs are not to be confused with dealers' reserves which are included in the finance rate chart.

Automobile purchasers, through ignorance, indifference, or faith in a dealer's integrity, have made it easy for a dealer to increase the finance charge. These overcharges, usually, are the result of the customer carelessly signing his contract in blank or neglecting to read its provisions.

The packing or overcharging is accomplished in two ways: (1) by charging the customer an amount in excess of his verbal agreement; (2) by not giving the customer what he thought he paid for.

The files of the Better Business Bureaus in the larger cities are filled with complaints on finance packs, but since customers blindly sign agreements in blank, there can be little redress by direct legal action.

In order to illustrate finance-pack methods used by automobile dealers, four cases investigated by the Detroit Better Business Bureau are presented.[43] These cases illustrate (1) the size of packs, (2) the

[41] *See* discussion *supra*.

[42] An informal organization of finance men.

[43] In February, 1937, the Detroit Better Business Bureau sought to have revoked the license of the Standard Motor Sales Corporation, and presented these cases as testimony in a trial before the Michigan Secretary of State, who, under state law, tries such cases.

balloon note, and (3) the withholding from the customer of services he thought he paid for.

Case I: The Magnitude to which Finance Packs May Grow—In this case, the complainant bought a used car in response to the following ad in the *Detroit News*:[44]

Nash—Latest 1936 6-cylinder built-in-trunk 4-door touring sedan; heater, '37 plates, finished in beautiful Cordova gray; spotless mohair trim, dual acc. group; really a beauty; you'll know it's a bargain at only $539.50, $119.50 down or your car. Hurry. Your dollars bring more at the Big Store, 3651 Woodward. Reliable since 1920.

Complainant, Edward Callaghan, 2215 Lawndale, Detroit, Michigan—Was allowed $159 on his old car and paid an additional $44.77 as down payment—a total credit of $203.77. The 3% sales tax on $539.50 is $16.19, making total selling price $555.69. That left $351.92 to be financed.

Mr. Burman, of Associates Investment Company, testified that the figures submitted on this deal by Standard Motor Sales showed the selling price $708.77, trade-in $159, cash $44.77, leaving $505.00 to be financed through 18 payments of $35.32, or a total of $635.76 to be paid.

The indicated overcharge in this Callaghan deal was therefore $153.08 plus a finance charge on the overcharge, plus $12 "dealer reserve" or kick-back included in the finance charges without the customer's knowledge.

Callaghan testified that after complaint had been made to both the Bureau and the Prosecutor's office, Standard Motor Sales (which had resold his trade-in) "reversed the deal," but refunded only $119 of the $203.77 credit.

Case II: The Balloon-Note Contract—Such a contract consists of a series of notes of moderate size with a final note which is much larger than any of the equal preceding notes. This practice is frowned upon by the better dealers and the leading finance companies, for the following reasons: (1) It generally means that the customer has purchased a car in excess of his buying power, and it is, therefore, unsound business practice; (2) refinancing of the balloon note invariably takes place with an extra charge for this service; (3) the customer may not be made aware of the balloon feature.

Complainant Lester Klingensmith, 3323 Harris, Ferndale, bought a used 1935 Chevrolet at an agreed price of $395.00 being allowed $35.00 on his old car, and paying an additional $48.85 as down payment—a total credit of $83.85. The 3% sales tax on $395.00 is $11.85, with the $2.00 transfer fee making the total selling price $408.85. That left $325.00 to be financed. Klingensmith was told there would be 11 notes of $19.50 each, plus a "balloon."

Mr. Burman, of Associates Investment Company, testified that the figures submitted by Standard Motor Sales on this deal showed the selling price $428.25, leaving $345.00 to be financed through 11 notes at $25.00 and a $143.12 "balloon," or a total of $418.12 to be paid.

[44] *Detroit News,* February 25, 1937.

The indicated overcharge in this Klingensmith deal was therefore $20.00, plus a finance charge on the overcharge, plus a $12.00 "dealer reserve" or kick-back included in the finance charges without the customer's knowledge.

Case III: Not Giving the Customer What He Thought He Paid for—Complainant Mark Hinson, 51 Holbrook, Detroit, Michigan, bought a used 1936 Hudson at an agreed price of $650.00, and having no old car to trade in, paid $300.00 down, signing a contract in blank. The 3% sales tax on $650.00 is $19.50, making the total selling price $669.50. That left $369.50 to be financed through the Morris Industrial Plan Bank, Hinson understanding that there would be a "7% carrying charge."

Hinson testified that the financing was switched to Central Discount Company without his knowledge or consent and that when he then offered to pay cash in full, his offer was refused. He quoted the salesman as saying: "Where do you think we make our money? We make our money on the finance charges."

Mr. Peat, of Central Discount Company testified that the figures submitted by Standard Motor Sales on this deal showed the selling price $681.50, down payment $302.00, leaving $379.50 to be financed.

The indicated overcharge in this Hinson deal was therefore $10.00 plus a finance charge on the overcharge, plus a $15.00 "dealer reserve" or kick-back included in the finance charges without the customer's knowledge.

Case IV: An Illustration of All Elements Included in Finance Charges—Complainant Leonard Asselin, 18942 Sunset, Detroit, Michigan, bought a used DeSoto at an agreed price of $575.00, being allowed $50.00 on his old car and paying an additional $74.25 down—a total credit of $124.25. The 3% sales tax on $575.00 is $17.25 plus $2 transfer fee makes the total selling price $594.25. That left $470.00 to be financed.

Mr. Keith, of Continental Credit Company, testified that the figures submitted by Standard Motor Sales on this deal showed selling price $594.25, down payment $100.00, leaving $494.25 to be financed. His company charged $136.00 for financing, which included $9.35 insurance and a concealed "dealer reserve" or kick-back of $26.00, making a total of $630.25 to be paid.

The indicated overcharge in this Asselin deal was therefore $24.25, plus a finance charge on the overcharge, plus a $26.00 "dealer reserve" or kick-back included in the finance charges without the customer's knowledge.

This last case clearly reveals the size of the reserve, rebate or bonus which is returned to dealers by finance companies, as well as the insurance charge, and the overcharge slipped in by the dealer. Here the finance company made a charge of $136, which, if the insurance cost of $9.35 were deducted, would leave a net charge of $125.65. This is slightly more than 25 per cent of the balance due of $494.25. Assuming that this balance would be paid over either 12 months or 18 months, the actual interest charged would be 46.93 per cent if paid over 12 months, or 32.11 per cent if the contract ran for 18 months.

Since the credit rating of the individual who purchased the car is unknown, and since the loan granted was in excess of the wholesale

valuation of the car, it might be reasonable to expect a high finance charge. The rate charged, however, seems excessive and without justification, but it explains the reason that permitted the finance company to grant a $26 rebate to the dealer for favoring it by selling it that particular finance paper.[45]

These cases are extreme and not typical of the automobile business, but the wide adoption of these practices, particularly by used-car dealers, and by some of the less scrupulous new-car dealers, has had a serious effect on the activities of all dealers. Dealers who have had the benefit of this extra profit—realized or anticipated—have been able to advertise used cars at lower prices, or to grant larger trade-in allowances to prospective buyers than have those dealers who were not receiving this surreptitious income. Since the public has insisted on focusing its attention on either the price advertised or the allowance granted in trade, and has overlooked the costs of financing, dealers who have attempted to operate honestly have lost business to those less conscientious.

This situation became so serious in various cities that the Better Business Bureaus opened war on these practices. To the credit of the majority of automobile dealers and the leading finance companies, active support was given by them to expose such practices, and to re-establish honesty in the financing of automobiles.

The Cleveland Better Business Bureau in March, 1937, inaugurated a program to eliminate finance packing. A series of six large advertisements were run in Cleveland papers, showing eleven steps which a customer should check carefully to determine the honesty of his deal. They are:

Cash price
State Sales Tax
Filing Fee
Transfer and License
Insurance (Kind, Cost)
Total

Less Cash Down Payment and Trade-In
Total Cash Balance Due
Finance Charge
Total Amount Due
Payable in ____ Payments @ $________ per month

[45] There are numerous similar cases on file in the Cleveland Better Business Bureau. However, in the Detroit cases, the breakdown of the charges is recorded more completely.

The Cleveland Finance Club, composed of representatives of the major finance companies in Cleveland, agreed not to pack or to condone packing or padding of finance rates, and further agreed that each member should file his maximum-rate chart with the Cleveland Better Business Bureau,[46] and that any charge in excess of these rates would be a violation of their agreement.

Cleveland automobile dealers were then asked to sign an anti-pack agreement and to file with the Cleveland Better Business Bureau the rate charts to which they would adhere. Approximately 200 dealers filed these charts. This aggressive attack has had its effect. It has not eliminated the pack, but the general impression is that the practice is not as flagrant as it once was. The Better Business Bureau of Chicago instituted a program of a similar nature in the spring of 1939, and those in Philadelphia and New York planned like campaigns.[47]

Trends Towards Improved Time-Sales Financing

Finance-Company Efforts

Some of the larger finance companies have, in 1938 and 1939, engaged in extensive advertising campaigns to gain consumer goodwill, and to achieve not only consumer recognition and acceptance but consumer insistence for their services as well. An outstanding example of this is the 1939 campaign of the General Motors Acceptance Corporation, which had as its objective the reaching of ten million automobile owners during the first half of the year.[48]

A piece of direct mail was sent to every registered car owner in thirty metropolitan areas throughout the United States. This consisted of a finance rate chart for new cars with a full explanation of how to compute finance charges in the event of a new-car purchase.

This, subsequently, was followed by mailing, to all registered owners of cars in the 1932 to 1936 classification, a chart showing used-car finance charges for the particular areas in which the owners resided. This, probably, is the first nationwide attempt by any finance company to publicize used-car rates. Moreover, it pointed out to the prospective buyer the amount and kind of insurance coverage he would obtain under a General Motors Acceptance Corporation contract. This was an

[46] The writer, in reviewing these rate charts, noted that many companies did not file their own chart, but that of a competitor which had a higher rate, to serve as their maximum charge.

[47] "Better Business Bureaus Expose Finance Pack Racket," N. A. D. A. *Bulletin*, February, 1939, p. 4. Also, *Time Sales Financing*, March, 1939, p. 6.

[48] Conversation, July 10, 1939, with the Assistant Manager of the Cleveland Office, General Motors Acceptance Corporation.

implied warning to him to check the insurance offered under any other finance plan.

This direct-mail campaign was supported by extensive newspaper, national magazine, and billboard advertisements, and by dealer display material. The educational character and the high plane on which the campaign was conducted could not help but create public confidence and goodwill.

Legislation and Government Control

A discussion of this subject must be divided into two parts: (1) the regulation of the industry to insure fair competition; (2) the regulation of finance-company practices to protect the consumer.

Regulation of Competition—The historical development of automobile-sales finance companies showed them belonging to either of two major associations: (1) The National Association of Sales Finance Companies, principally supported by General Motors Acceptance Corporation, Commercial Investment Trust, Commercial Credit Company, and Universal Credit Corporation; (2) the American Finance Conference, which represents more than 350 local and sectional finance companies.

In 1936, the fight between these two groups blazed to high pitch. The American Finance Conference accused the automobile manufacturers and their owned and affiliated finance companies of coercive and unfair competitive practices which violated the United States Anti-Trust laws. This coercion, it was argued, consisted of a number of forms: (1) refusal of independent finance company checks at the factory to cover wholesale loans to dealers when they took delivery of cars; (2) delayed delivery of body types needed; (3) forced delivery of other types not wanted; (4) delayed delivery of any type of car at time of introduction of new models; (5) threat of cancellation of franchise; (6) multiple dealer representation without economic justification; (7) various and sundry dealer persecutions.[49]

An extensive investigation was made by the United States Department of Justice, and in September, 1937, Federal Grand Jury hearings were held in Milwaukee, Wisconsin. On October 22, 1937, Judge Ferdinand Geiger, the presiding judge, became incensed over the efforts of the Department of Justice to effect an agreement with the defendants during the Hearings, and dismissed the Grand Jury.[50]

[49] *The Automobile Finance Business, op. cit.*, p. 7.

[50] This Grand Jury dismissal action was subjected to a Congressional Hearing before the Committee of the Judiciary, House of Representatives. The conduct of the Court and the Federal Department of Justice was investigated. The proceedings were printed, January 25, 1938, under the title, *Official Conduct of Judge Ferdinand A. Geiger.*

Proceedings were again started by the Department of Justice, and in June, 1938, the Federal Jury sitting in South Bend, Indiana, indicted the Ford Motor Company, the Chrysler Corporation, and General Motors Corporation, and the four national finance companies. By this time, Chrysler Corporation had sold its 55,000 shares in Commercial Credit Company and had cancelled its contract. Ford had severed his connection with Universal Credit Corporation in 1933 and had never been accused of participation in finance charges. General Motors sensed that the Government would require a divorce between it and its subsidiary and refused to enter negotiations. At present it is fighting the charges of the indictment.[51]

On November 15, 1938, the Ford Motor Company and the Universal Credit Company, the Chrysler Corporation and the Commercial Credit Company entered into consent decrees with the United States Government.[52] The decision resulted in a partial victory for both sides. The defendants agreed to refrain from the coercive practices of which they had been accused, although they denied that they were guilty of violating the Anti-Trust laws. The defendants, however, obtained the freedom to recommend retail finance plans to dealers and to the public. Moreover, finance companies that desire factory endorsement must agree to adhere to certain rules of good conduct by filing a registration statement with the court. The regulations require any registering company to comply with the following:

1. To provide the purchaser with a character of insurance for which he has bargained and to tell him the amount of the insurance premium.
2. Not to require or accept assignments of wages or to garnishee wages to collect deficiency judgments against purchasers of low priced automobiles where the purchaser has on request of the company surrendered the car . . .
3. Not to take deficiency judgments on repossessed cars where the purchaser has paid 50% of his note; and if a repossessed car is sold at more than the balance of the debt to account to the purchaser for the excess.
4. Not to circumvent the foregoing provisions by assigning the paper to a third party without committing the assignee to the obligation resting upon the finance company. This does not apply to a full-recourse transaction where the dealer re-acquires the paper.
5. Not to charge a higher rate for granting an extension of time than an equivalent of the original finance charge or to charge more than 5%

[51] *See* p. 227, *infra*.

[52] These companies signed the agreement with the stipulation that if General Motors and General Motors Acceptance Corporation were victorious in their suit, the consent decrees automatically ceased to be binding, and a further provision required a review at the end of four years.

of a delinquent instalment for waiving a default or more than actual out-of-pocket expenses in effectuating repossessions or collections.

6. Not to require the dealer to take chattel mortgages on other property than the automobile financed. This is done in order to discourage the practice of those who have been disposed to over-reach the public by taking chattel mortgages on household goods as additional collateral.
7. That the finance company will not represent that it is connected or affiliated with the manufacturer or that the manufacturer assumes a responsibility for its acts; this, of course, does not restrain the finance company from stating that it is a registered company if such be the fact; or that it is a registered company and is offering a plan adopted by the factory, if that be the fact.
8. That the finance company will not intentionally injure the goodwill of the manufacturer or its dealers.
9. That the finance company will not, without the manufacturer's consent, disclose to a competitor information received from the manufacturer.
10. That the finance company will comply with the order entered in any subsequent proceedings on the subject of repossession loss reserves . . . .
11. That the finance company will not violate any other reasonable rule of the manufacturer provided that such rule has been approved by the Department of Justice and incorporated in the registration statement by further order of the United States Court upon notice and hearing to all interested parties.[53]

Registration with the court is voluntary, and any finance company may withdraw whenever it desires, but while registered, it must abide by the above rules.

Although the basic considerations in the consent decrees were the same for the Ford-Universal decree and the Chrysler-Commercial decree, the details varied to some extent.[54]

[53] Phillip W. Haberman, General Counsel, Universal Credit Corporation and Commercial Investment Trust, "The Consent Decrees in the Automobile Finance Cases," *Time Sales Financing,* December, 1938, pp. 6-8.

[54] *Under the Ford-Universal decree,* the Ford Motor Company is prohibited from recommending or endorsing any particular finance company, but the Ford Company is not restrained from adopting plans for the financing of cars, or modifying such plans, or from recommending their use to dealers or to the public. But if Ford promotes a plan or desires to make changes in its existing plans, it must notify each company which has requested notification thereof. Furthermore, should such a plan seem prejudicial to a finance company, it has the right to ask the court to vacate the plan, on the ground that such plan violates the Federal Anti-Trust laws, and the court reserves jurisdiction to approve or vacate such plan, but any company so applying to the court under the terms of the order must be prepared to give a bond against damages should an order vacating the plan be subsequently reversed or itself vacated.

Under the Chrysler-Commercial decree, two additional provisions are included: (1) If and when Chrysler adopts a finance plan for retail sales of new cars, all finance companies which are registered under the Chrysler decree must adhere to that plan on new-car retail paper covering cars manufactured by Chrysler—the terms of the paper may be more favorable to the purchaser, the finance charge may be lower than the official rate, but if it is more, the finance company must refund the excess to the purchaser; (2) if the Chrysler Company advertises either to dealers or to the public, the name of any registered finance company which offers the Chrysler plan, it must include the names of all registered companies which also offer the plan in the territory to which the advertisement is directed. *Ibid.*

The question of dealer reserves, rebates, or bonuses was not dealt with because General Motors refused to enter into a consent decree, and to have ruled on this point prior to the settlement of the Government's case against General Motors and G.M.A.C. would have been prejudicial against Ford and Chrysler interests.

Another significant and important omission is the question of used-car financing. This omission, probably, can be traced to the fact that the case involved coercive practices of manufacturers in the financing of new cars, and since manufacturers are primarily interested in new cars, the used-car problem was not touched upon. But it seems fair to assume that if malpractices in new-car financing are eliminated, it will be only a question of time until the same restrictions will apply to used cars.

Many of the abusive practices in the financing of new and used cars, because of their local nature, must be corrected, for the most part, by local or state action, for only in exceptional instances would interstate commerce be involved.

Regulation of Finance-Company Practices to Protect the Consumer —To the layman, it might seem strange that if he visited a finance company which operated two departments—a personal-loan department and an automobile-sales finance department—he would be protected from exorbitant interest charges by law if he received funds from the personal-loan department, but borrowing from the other department would afford him no legal protection on the rate charged. If he borrowed money from the personal-loan department and pledged his automobile as security, he would be paying interest on the loan, and the Small Loan Act of the State, which limits the rate of interest to be charged, would protect him. But if he signed a note for a dealer when purchasing a car, no legal limits exist to regulate the amount he would pay for the financial accommodations accorded him.

The numerous abuses under this contractual freedom have raised the question: Why can a finance company charge a rate in excess of the limit on rates of interest for extension of credit without violating usury statutes? The Commissioner of Loans of the State of Maryland gives the following answer:

> The answer to this lies in the fact that by fiction of law the term "usury" must always be predicated on a loan, that is, usury can only arise out of a loan. The finance companies claim that they are not lending money, but instead, purchase or discount commercial paper, which in the case of the purchase of an automobile on time, consists of his conditional contract of

sale and the negotiable notes executed by him. This position is supported by our courts which have followed old legal precedents.

This is not logical as far as the purchaser of the automobile is concerned. The purchaser is not alone in his view. A small but clear voice is being heard in dissatisfaction to the settled rule that credit sales do not come within the scope of Usury Statutes. Thus in the case of *Saylor* vs *Brady* 248 N. W. 673, North Dakota, the Court says: "If the auto buyer is able to negotiate a loan for the unpaid balance of the cash price and is charged an illegal rate of interest, all courts hold the transaction to be usurious and the lender subjected to a forfeiture or double interest; or to loss of principal as well; or in some jurisdictions, to a criminal prosecution; on the other hand if the regular method is used to finance the deal and the unpaid balance of the purchase price is paid the dealer by the finance company which is to be reimbursed by the buyer, the Courts have said the transaction is perfectly legal and enforceable. In one case, there is a usurious lender; in the other there is no lender at all, but the result is the same. The lender is penalized in the first situation, the finance company is protected in the second. In each case, the purchaser buys the automobile at approximately the same costs to himself. To him, however, the distinction between the two situations is merely one of words, since in each case he is compelled to pay more for the credit obtained. The fictional character of the usury laws can be shown in no better way."[55]

Some objection, however, is found in the question of putting a ceiling to the finance charges. Finance men ask why a limit is suggested for the mark-up on their merchandise when there is no restriction upon the mark-up on other kinds of merchandise, for they maintain that they sell the use of money for a period of time. The question is one not easily countered. Probably the only answer to it is that because the consumer either is unable to compute his financing costs or is too indifferent to do so, legislation may be desirable to protect him.

Other abuses against which the consumer needs protection are (1) delinquent charges, (2) attempts to profit through repossession, (3) misrepresentation of finance charges, which includes packing, (4) misrepresentation of insurance protection or insurance costs, and (5) prepayment discounts. Two methods of attack on these abuses have been suggested: (1) legislation which should establish penalties for those guilty of malpractices, without the creation of a new governmental agency; or (2) the creation of a governmental agency which would have the power to license and regulate dealers and finance companies.

[55] W. David Tilghman, Jr., Commissioner of Loans, State of Maryland, *Abuses in the Automobile Finance Business,* A Case Study of Repossessions of Automobiles by Automobile Finance Companies and Dealers (Baltimore, Maryland, 1939).

As to legislation, the major finance companies would not oppose reasonable measures in regard to questions of delinquency charges, repossession practices, prepayment discounts, and a legal requirement making it compulsory for the dealer to give the automobile buyer an itemized statement of the terms of his contract, covering the selling price, the trade-in allowance, the down payment, the balance due, the finance charges, the monthly payments, and the total of all monthly payments.[56]

Legislative measures, however, which provide for licensing of finance companies and automobile dealers have met with bitter opposition. In spite of this, two states have been successful in enacting such legislation.

Regulatory Acts—In 1935, Wisconsin and Indiana each passed retail-instalment-sales acts. Both of these acts provided for the annual licensing of finance companies which discount time-sales instruments. The Wisconsin act was more inclusive, embodying the automobile dealers and salesmen as well.

These acts contain provisions which aim towards the elimination of the most offensive finance abuses. The more important provisions are listed below.

1. The Wisconsin act sets 15 per cent as the maximum interest charge that can be made, while the Indiana act gives its governing board the authority to set the maximum charge.
2. Provision is made that a complete statement of the transaction must be given to the buyer either before or at the time of the sale. This statement must include (a) the cash price of the specific goods, (b) the down payment, (c) the unpaid balance, (d) the cost of insurance, (e) the total of items c and d, (f) the amount of the finance charge, and (g) the time balance, the number of monthly payments, and the date of each payment.
3. The insurance coverage must be stated, and a policy or statement mailed to the buyer within 25 days after the transaction is completed, in Indiana; prior to 30 days, in Wisconsin.
4. The departments administering the acts establish the discounts allowable for prepayment.
5. Collectible charges in cases of repossessions are limited, thereby avoiding possibilities for profit from this source.

At least two factors have prompted the opposition of automobile manufacturers and finance companies in their fight against the creation

[56] Milan V. Ayres, "The Problem of Regulating Sales Finance Companies," *Time Sales Financing*, May, 1937, pp. 3-5.

of state regulatory agencies. The first might be termed the obsession which successful businesses have against governmental control. This was manifested in G.M.A.C.'s attack upon the Indiana Instalment Sales Act, which was declared unconstitutional by the United States District Court, October 2, 1935.[57] On May 18, 1936, however, the United States Supreme Court overruled the District Court, on the ground that that court was without jurisdiction, because the plaintiffs had failed to show that damage caused by enforcing the Act would exceed $3000.[58]

The second reason has been a fear that the state regulatory body might be controlled by either banking or small-loan interests which currently are waging a bitter fight to get a larger share of the sales finance paper.

Legislation, regulation, and public opinion may gradually eliminate the malpractices in automobile financing, but as long as excessive allowances are granted on used cars, the malpractices will merely change in character.

[57] "Indiana Law is Unconstitutional," *American Finance News,* October 29, 1935.
[58] "The Indiana Retail Installment Act," *American Finance News,* June 30, 1936.

CHAPTER XIII

WHAT THE CONSUMER THINKS OF USED CARS AND USED-CAR DEALERS

Several studies have been made by the publishers of periodicals to determine the reactions of consumers to their new-car purchases, and the factors which prompted their selection of certain makes and models, with incidental references to used-car buyers.[1] One newspaper publisher made a quantitative study in 16 cities to determine the makes purchased by various income groups, and to find whether they were purchased as new or used cars.[2] This study was more descriptive than analytical, but some effort was made to forecast future consumer purchasing trends.

In 1938, the Crowell Publishing Company in its *Fifth Annual Automobile Survey—Consumer Reactions to 1938 Models* included a brief study of used cars. Among other things, data on the following questions were assembled: (1) the prices paid by consumers; (2) whether or not they had cars to trade in on their purchases; (3) whether or not the cars traded in had been purchased as new or as used cars; (4) to what extent the buyers had shopped; and (5) whether or not they had a certain price or make in mind when they set forth to purchase their cars. This analysis of used-car consumers was based on data secured in 1936 from 473 used-car buyers in 80 cities.

These are the only published studies of used-car purchasers which the writer has been able to find, and they have afforded some suggestions as to the method of approach to this problem.

Used-Car Buyers—A Study in Cleveland, Ohio

The study reported in the following pages was made for the purpose of ascertaining (1) the methods by which consumers in Greater Cleveland, Ohio, approach the purchase of a used car, (2) the factors which determine the direction of their patronage, (3) their previous

[1] *The Passenger Car Industry* (Curtis Publishing Company, Philadelphia, Pennsylvania, 1932). Also, *Seeing Behind the Figures* (1935), *1936 Motor Car Buyers*, and *Fifth Annual Automobile Survey—Consumer Reactions to 1938 Models* (Crowell Publishing Company, New York, N. Y., 1938).

[2] *Market Records*, Automobile Section (Scripps-Howard, 1938).

experience in buying used cars, and (4) the nature of their reactions towards their purchases and the dealers from whom they bought them.

Unlike most commodities, the sales of automobiles must be registered at the county court house. The Cleveland Automotive Trade Association has obtained the privilege of maintaining a clerk in the county office, whose duty it is to record the sale of every used car of the current year's models and of the models for the five preceding years. Through the courtesy of this organization, the writer was able to obtain access to the list of all used cars sold between December 27, 1937, and June 25, 1938, comprising a six-month period of used-car sales in Cuyahoga County, Ohio.

From this list, it was possible to obtain a cross section of used-car buyers which took into consideration (1) price classification of used cars, (2) makes of cars, (3) models and years, (4) dates of purchases, and (5) neighborhoods in which purchasers resided.

The question of the period to be studied was settled on the following basis: (1) The period chosen (December 27, 1937—June 25, 1938) was the most current period available to the writer when the study was undertaken; (2) the first six months of the year represent the most active period in the sale of used cars; (3) this period is one in which model changes—a very disturbing element—do not enter. Subsequently, the automotive industry may also point to this period as the first period in which the automobile manufacturers actively participated in assisting dealers in the marketing of used cars.[8]

During this period, 16,041 used cars were sold in Cuyahoga County. The following items of information were obtained on the sale of each car: (1) the name and address of the purchaser; (2) the make of used car; (3) the model number and year of manufacture; (4) the sale price; and (5) the dealer from whom the car was purchased.

Of these 16,041 used-car sales, 2 out of each 25, the 12th and 25th, respectively, were selected to form a sample of 1,283. A personal letter was addressed to each of these selected purchasers, containing a statement that a representative of the writer would call to ask a few questions relative to his purchase. These personal calls were made between February 1, 1939, and June 1, 1939, approximately one year after the date of purchase. The lapse of time was felt to be desirable in order that the used-car buyers would have a sufficiently long period of experience on which to base their replies to the questions. Investigators were chosen carefully and were well instructed. The interviewers made their calls with an open mind, and without advice as

[8] National Used-Car Week, March 5 to 12, 1938.

to what they might expect. They were chosen for the type of district in which they would work, several of the interviewers speaking the language of their respective districts.

From the 1,283 buyers called upon, 529 completed questionnaires were secured.[4] The remainder either had moved and left no address or were not at home at any one of the three calls made. In very few cases were there absolute refusals to give information.

The form of the questionnaire is shown in Chart 11.

CHART 11—QUESTIONNAIRE ON USED CARS PURCHASED IN GREATER CLEVELAND, OHIO, JANUARY 27, 1937, TO JUNE 25, 1938

Name........................; Address........................
Make of Used Car........................; Model........................; Year........
Dealer from whom car was purchased........................; Price: $........

. . . .

1. a. Did you have a car to trade in? Yes........ No........
   b. Make of trade-in........................; Model........................; Year........
   c. How much were you allowed for your trade-in? $........

2. What caused you to go to this dealer?
   a. A newspaper advertisement ....
   b. Recommendation of a friend ....
   c. Looking ....
   d. Other reasons ....

3. Did you have your mind made up as to the make and model you wanted before you started looking? Yes........ No........

4. a. Is this your first used car? Yes........ No........
   b. If not, how many have you bought?........
   c. Have you ever bought a new car? Yes........ No........

5. Will you buy another used car when you need a car? Yes........ No........ I don't know........

6. Will you buy it from the same dealer? Yes........ No........ I don't know........

7. Do you go back to the dealer from whom you bought your car for service? Yes........ No........
   If not, why not?..
   ....
   ....

(Use reverse side for additional comments)

Date of Investigation........................; Investigator........................

[4] It is believed that the data are representative of the various types of used-car purchasers and purchases in Metropolitan Cleveland. The method by which the sample was selected resulted in questionnaires being answered by residents in all sections of the area, and in a wide range of income classes.

The following tests were made to determine the representativeness of the sample: *Sales Price*—The average sales price of the 16,041 cars sold was $370.33; the

Question 1a: Did you have a car to trade in?—It was found that 66.2 per cent (350 out of 529) of those purchasing used cars had trade-ins.[5] This represents the average for all cars purchased, but, in itself, fails to show how a dealer through a trading-down process eliminates his inventory of used cars.

Table 37—Trade-ins on Used Cars Related to Price Classifications of 529 Selected Used-Car Purchases, Cuyahoga County (Cleveland), Ohio, First Six Months, 1938.

Purchase Price of Used Car	Trade-In		Percentage of Purchasers with Trade-ins
	Yes	No	
	(Number)	*(Number)*	*(Per Cent)*
Above $550	66	18	78.6
451–550	64	18	78.0
351–450	70	27	72.2
251–350	74	44	62.7
151–250	63	51	55.3
150 and below	13	21	38.2
Total	350	179	—
Average	—	—	66.2

By segregating these 529 purchases into price classifications, it becomes evident that, in each succeeding lower-price classification, fewer trade-ins were involved, thereby aiding in the liquidation of the used-car inventories of dealers. Table 37 shows these 529 used-car purchases divided into six price classifications, and the percentage of trade-ins involved in each price class.

Of the purchasers buying used cars in the highest price classification —$551 and above—79 per cent had trade-ins, while only 38 per cent of those buying cars in the $150 class had trade-ins.

average sales price of the sample selected was $374.57, a variation of only slightly more than 1 per cent.

Make of Car—Total sales were distributed by makes of cars, and a similar distribution for the sample was compared with it: 30 makes of cars were represented, and in only two cases did the sample vary more than 1 per cent from the percentage representation of those makes in the total sales. (*See* Appendix G.)

Model and Year—All models were classified by model years, and the models in the sample were likewise classified. A comparison indicated that the sample was representative in this respect. (*See* Appendix F.)

Although the sample was small (529), representing only 3.3 per cent of the total sales, its adequacy was reasonably established. Questionnaires were tabulated in groups of 50, and the data summarized. In only two instances in the 22 items of information was it necessary to tabulate 400 questionnaires before the addition of the data for the next 50 caused a variation of less than 1 per cent in the results.

[5] The Composite Experience Table of the National Association of Sales Finance Companies (Chicago, Illinois, 1939) shows trade-ins occurring in 59 per cent of the cases of used-car purchases. The difference in findings can be reconciled, in part, by the fact that in the survey made by the writer no cars older than five previous models were included. *For* Composite Experience Table, *see* Appendix E.

Question 1b ascertained the make, model, and the year of car traded in on the used car purchased. Table 38 shows the various makes of cars traded in on these purchases. Of the 350 cars traded in, 330 were makes of manufacturers still in business.

The sample reveals only a limited loyalty on the part of the used-car purchasers to the makes they had previously owned. Of the 330 who traded in automobiles which were not "orphans," 116 (35.2 per cent) purchased cars of the same make as the car traded. The greatest degree of loyalty to the previous make of car owned was shown towards the "Big Three": Ford, Chevrolet, and Plymouth. Fifty-two (47.3 per cent) of 110 Ford owners who traded in cars again purchased Fords; 22 (37.9 per cent) of 58 Chevrolets turned in were traded on Chevrolets; and 12 (42.9 per cent) of 28 Plymouth owners were loyal to Plymouths. By grouping these three together, it was found that of the 186 purchasers who had previously owned these makes, 86, or 43.2 per cent, again purchased the same makes. Of the 186, 134, or 72.0 per cent, purchased one of the "Big Three." In connection with other makes, this sample is not large enough to warrant the drawing of conclusions on the loyalty of consumers.

Too much weight, however, cannot be placed upon such an analysis, for the used-car buyer, unlike the new-car buyer, cannot always purchase the make of his choice, because of lack of market information or because of used-car market conditions which either do not make the car of his choice available or make other cars better buys at that particular time.

The average year model of all cars traded in lay between 1931 and 1932 models, or more precisely, 1931.42, while the average year model of the used cars purchased which involved trade-ins was 1935.25, indicating that the average car purchased was 3.8 years newer than the car traded in. Since 1938 models were current for the data in the survey, the used cars purchased averaged approximately three years of age, and the cars traded in on these purchases were slightly more than 6.5 years old.

Question 1c sought to determine the value of the trade-in as it relates to the purchase price of the used car. In 350 cases, used cars were accepted as partial payments, but in only 299 instances did persons interviewed state the amount of allowance received; $122 was the average trade-in allowance granted on the purchase. In order to determine the relationship of this average to the average price of cars purchased, however, it was necessary to segregate the cars purchased

TABLE 38—MAKES OF CARS TRADED IN ON 529 SELECTED PURCHASES OF USED CARS IN CUYAHOGA COUNTY (CLEVELAND), OHIO, FIRST SIX MONTHS, 1938

Make of Used Car Purchased	Make of Used Car Traded in on Purchase																			
	Buick	Chevrolet	Chrysler	DeSoto	Dodge	Essex	Ford	Graham	Hudson	Nash	Oldsmobile	Packard	Plymouth	Pontiac	Studebaker	Terraplane	Willys	"Orphans"	No Trade-In	Total
Buick	4	1	..	..	1	..	2	..	..	..	1	..	..	1	2	..	..	2	6	20
Cadillac and LaSalle	..	..	..	..	..	..	1	..	..	..	1	..	..	1	..	..	..	..	2	5
Chevrolet	2	22	1	1	2	1	9	..	..	1	2	..	6	6	2	..	2	5[a]	26	88
Chrysler	..	1	..	..	1	..	1	..	2	..	..	..	2	1	..	..	1	2	8	19
DeSoto	..	2	2	..	1	..	4	..	..	..	..	..	..	..	..	..	..	1[a]	1	11
Dodge	..	3	1	..	8	1	13	1	..	2	3	..	2	1	1	..	..	2	11	49
Essex	..	1	..	..	..	1	..	..	..	..	..	..	..	..	..	..	..	1	..	3
Ford	1	8	..	..	2	..	51	..	..	1	2	1	3	2	1	2	2	3[a]	64	143
Graham	..	..	..	..	..	..	1	2	..	..	..	..	..	..	..	..	..	..	..	3
Hudson	..	..	..	..	..	..	..	..	1	..	..	..	1	..	1	..	..	..	1	4
Hupmobile	1	..	..	..	1	..	1	..	..	..	..	..	..	..	..	..	..	..	1	4
Nash	..	1	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	1	2
Nash-Lafayette	..	..	..	..	..	..	1	..	..	..	..	..	..	..	..	..	..	..	..	1
Oldsmobile	..	4	..	..	..	..	1	..	..	..	6	1	1	2	2	..	1	1	8	27
Packard	..	..	..	..	..	..	2	..	1	1	1	..	..	1	..	..	..	..	..	6
Plymouth	1	8	2	1	4	1	15	..	..	1	1	..	12	3	..	..	..	2	32	83
Pontiac	..	4	..	2	1	1	7	..	..	1	..	..	1	5	..	..	1	..	11	34
Reo	..	..	..	..	..	..	1	..	..	..	..	..	..	1	..	..	..	..	..	2
Rockne	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	2	2
Studebaker	..	..	..	..	..	..	1	..	1	..	..	..	..	1	1	..	1	..	1	6
Terraplane	..	2	1	..	1	2	..	1	1	..	..	..	..	..	..	2	..	1	3	14
Willys	..	1	..	..	..	..	..	..	..	..	..	..	..	..	..	..	1	..	1	3
Total	9	58	7	4	22	7	111	4	6	7	17	2	28	25	10	4	9	20	179	529

[a] Includes one trade-in of unnamed make.

which involved trade-ins from those without trade-ins. When this was done, it was found that the average price of the cars which involved trade-ins was $22 higher than the average price of all used cars, being $397 as against the general average of $375 for the 529 cars.

Two factors explain the difference between the value of cars sold which include trade-ins and those which do not. They are: (1) that as the price declines, the number of trade-ins decreases (Table 37); and (2) that the price of the used car on which a trade-in is considered is frequently inflated in order to make it possible to offer the buyer a larger trade-in allowance for his car.[6]

Those buyers who traded in used cars on their purchases paid, on the average, $275 for a car 3.8 years newer than the car traded in.

TABLE 39—FACTORS DETERMINING DEALER PATRONAGE IN 529 SELECTED PURCHASES OF USED CARS, CUYAHOGA COUNTY (CLEVELAND), OHIO, FIRST SIX MONTHS, 1938.

Reasons for Dealer Choice	Number of Buyers	Per Cent of Total Buyers
Looking (shopping)	251	47.4
Recommendation of a friend	157	29.7
A newspaper advertisement	34	6.4
Previous purchases from dealer	30	5.7
Reputation of dealer	25	4.7
Creative efforts of dealer, salesmen, and other employees	16	3.0
Miscellaneous	12	2.3
No reason given	4	.8
Total	529	100.

Based on an annual estimate, they paid $72 for each additional year of car life obtained. Stated in another manner, the buyers were willing to accept $275 in depreciation; on a straight line method of calculation, to accept $72 as an average annual depreciation.

Question 2: What caused you to go to this dealer?—The purpose of this question was to discover the reasons for customers patronizing the dealers from whom they purchased their cars. A tabulation of the answers is shown in Table 39.

From these findings it can be seen that almost one-half (47.4 per cent) of the buyers approached the problem of purchasing a used car without any particular dealer preference. Friends who had made satisfactory car purchases are first in importance in directing the prospective purchaser to a particular dealer's place of business. This

[6] It is well recognized in the trade that discounts from the currently quoted prices are frequently given buyers who have no used cars to trade in.

reason accounted for approximately 3 out of 10 dealer choices. From this it can be seen that the establishment of goodwill and of favorable customer relationships are of real importance to a dealer. The comments made in answer to this question revealed the goodwill which some of the Cleveland dealers have created.

Newspaper advertisements are relatively unimportant, seemingly, in directing patronage to a dealer; only 1 out of 17 purchasers (6.4 per cent) attributed his purchase directly to a newspaper advertisement. In fairness, however, it cannot be denied that the extensive used-car advertising of the majority of dealers has created a general demand for used cars, which is not reflected in these answers. Used-car classified advertising which carries daily quotations of sales prices of used cars keeps prospective purchasers currently informed as to prices, and, unquestionably, stimulates car buying.

Previous purchases from the dealer accounted for 1 out of 18 purchases (5.7 per cent), indicating that established patronage habits in the purchase of used cars are of little significance. This statement needs modification, for only 350 cars were traded in, thereby indicating previous car ownership. If the number who returned to the dealer with whom they had previously dealt is related to this figure, the result would be 8.6 per cent instead of 5.7 per cent, or slightly more than 1 out of 12.

The reputation of the dealer accounted for approximately 1 out of 21 (4.7 per cent) of the purchases. Certain dealers who are representatives of well-established makes, because of favorable locations and long tenure in the business, have been able to create a degree of public confidence which may or may not be justified.

Only 3 per cent of all used-car buyers attributed their purchases to the creative selling effort of dealers, salesmen, or other dealer employes. Used-car salesmen readily admit that they seldom believe it worthwhile to call on car owners and persuade them to trade their present vehicles for better ones, relying entirely upon the customer to initiate a sale. With but two exceptions, of the 16 purchasers who attributed their purchases to creative sales effort, these sales were made to close personal friends or relatives of the dealer or salesmen. One purchaser claimed that he had been called upon by the dealer, and the second said that a salesman had approached him. In summarizing the answers to this question, it is possible to group them into four major classifications:

Reasons for Dealer Choice	*Per Cent*
Shopping and newspaper advertising	53.9
Dealer reputation and following	40.1
Creative efforts of dealers and salesmen	3.0
Miscellaneous, and no answer given	3.0
All answers	100.

Numerous reasons for this distribution of choices exist, and they were discussed in Chapter X on the sales promotion of used cars.

Question 3: Did you have your mind made up as to the make and model you wanted before you started looking?—Of the 519 who answered this question, 233, or 44.9 per cent, answered that they did, and 286, or 55.1 per cent, answered that they did not. From this it can be assumed that the majority were open to purchase any one of the numerous makes that presented the best buy. That 44.9 per cent were committed to a certain make and model before entering the market indicates that the reputation of certain makes of cars and the manufacturers' merchandising aids in moving used cars of their own makes are of real significance. The used-car buyer is admittedly less style conscious and is seeking a dependable car. Upkeep and maintenance costs play an important part in the consideration of his purchase, with the result that used cars of the lower new-car price classification are in greater demand. This fact was developed and discussed at some length in Chapter V on used-car prices.

Question 4: Is this your first used car?—Of the 526 who answered this question, 3 out of 4 indicated that they had purchased used cars before; 131, or 24.9 per cent, answered "yes," and 395, or 75.1 per cent, answered "no."

Part b of Question 4 sought to determine the number of used cars each buyer had owned, including the one most recently purchased. The tabulation below shows the number of used cars purchased by each buyer.

Most Recent Purchase Was:	*Number of Purchasers*
First used car owned	131
Second used car owned	169
Third used car owned	96
Fourth used car owned	44
Fifth used car owned	33
Sixth used car owned	14
Seventh used car owned	10
Eighth used car owned	4
Ninth used car owned	3
Tenth used car owned	3
More than 10th	19

Too much significance should not be attached to this tabulation; it merely indicates the extent to which these used-car buyers have owned used cars before. It does indicate, however, that three-fourths of the used-car buyers have had considerable experience in their purchases of used cars; whether they have profited from this experience and will approach their purchases in the future with greater care and intelligence is difficult to ascertain. Successful and farseeing dealers, however, are planning their used-car merchandising with greater care than ever before.

As to the question of new-car ownership, 258 out of 524 stated that they had purchased a new car at one time. Slightly in excess of 50 per cent answered that they had never owned a new car. Remarks gathered in the course of the survey indicated that some of those claiming to have purchased new cars did so in the early twenties. If this question had limited new-car ownership to models of 1930 or later, the findings would have been more significant, for they would have indicated current purchasing habits. The importance of this was not recognized until the survey was completed.

Question 5: Will you buy another used car?—Those who expressed their belief that they would do so represented 47.8 per cent, or 250 out of 523 purchasers. These stated, in many instances, that economic conditions would necessitate such action. A few said they would do so because they believed depreciation savings could be effected through such action. Those who said they would not buy another used car constituted 20.8 per cent of the group. However, anyone acquainted with automobile buyers realizes that this expression may be one of desire unaccompanied by effective buying power to permit its accomplishment. Those who did not know represented 31.4 per cent of the group, and from these it can be readily inferred that, although they might desire a new car, their earning power would not permit it in all probability. Since only 21 per cent stated that they would not buy another used car, and a good authority claims that only 3 per cent to 7 per cent[7] of new-car sales volume rises from the ranks of used-car buyers, this figure indicates that more than 80 per cent of the current used-car buyers will repeat as used-car purchasers.

Question 6: Will you buy your next car from the same dealer?—Five hundred and twenty-two answered this question—35.4 per cent in the affirmative, 28.0 per cent in the negative, and 36.6 per cent replied

[7] Edward Payton, *A Sales Management Program*, Section 2 (Cleveland, Ohio, 1935), p. 3.

that they did not know. A fair assumption is that better than one-fourth of the used-car buyers were dissatisfied either with their purchase or with the subsequent treatment which the dealer accorded them. Many expressed the opinion that they had been deceived as to the condition of the car, and others felt that the dealer failed to meet reasonable requests for adjustments and service. Some dissatisfaction is to be expected in the sale of secondhand or used merchandise, because the purchaser occasionally fails to recognize that he cannot expect to get new-car performance from a used car.

One of the primary reasons, however, in permitting a year to elapse before calling on used-car buyers was to enable the purchaser to obtain a proper perspective on his purchase, which only time could give.

Question 7: Do you go back to the dealer from whom you bought your car for service?—In recent years, dealers have found that their profits developed from service, accessories, and finance reserves. Manufacturers and dealers generally have regarded the service department of an automobile dealer as a steady source of income. Regardless of fluctuations in car sales, servicing of cars continues. It can be, and frequently is, the one steady source of income for dealers, and aggressive dealers have sought to obtain car purchasers' allegiance, especially in the servicing of new cars.

Of the 525 persons who responded to this question, 35.4 per cent stated that they returned to the dealer for service on their used cars. This reveals a very close relation to the figure given in answer to Question 6, which raised the issue of whether or not the individual would purchase another car from the same dealer, wherein 35.4 per cent answered that they would. There can be little hope that a dissatisfied car buyer will return to the dealer for services and repairs.

Question 7 also sought to find out why purchasers did not return to the dealer for service. Table 40 summarizes their reactions to this question.

Approximately 26 per cent (137) of the buyers either perform their own service work or have members of their family or friends do it. Purchasers from non-service dealers, such as finance-company outlets, used-car lots, out-of-town dealers, or dealers located inconveniently for the buyers, accounted for 91, or 17 per cent. Dissatisfaction with the dealer and his prices for service work accounts for 81, or 15 per cent, of the buyers. Miscellaneous and no reasons or answers account for the remaining 27, or 5 per cent.

From these findings, it is evident that dealers are getting more than 35 per cent of the business that they might reasonably expect. When the cases of home repairs, purchases from non-service dealers, and purchases from dealers inconveniently located are eliminated, the

Table 40—PREFERENCE FOR SERVICE AND REPAIRS[a] OF 529 SELECTED USED-CAR PURCHASERS, CUYAHOGA COUNTY (CLEVELAND), OHIO, FIRST SIX MONTHS, 1938

Reasons for Not Returning to Dealer for Services and Repairs	Number of Used-Car Buyers	Per Cent of Total Purchasers
Return to dealer from whom car was purchased	186	35.2
Did not return to dealer from whom car was purchased	343	64.8
Total	529	100.
Reasons for Not Returning to Dealer:		
Service and Repairs by Self, Family or Friends		
Do own service work	54	10.2
Friends do service work	45	8.5
Did not need repairs or service; presumably made own repairs	38	7.2
Total	137	25.9
Non-Service Dealers and Inconvenience of Dealers' Locations		
Dealer does not service cars	22	4.2
Dealer inconveniently located	49	9.3
Out-of-town dealer	5	.9
Dealer out of business	15	2.8
Total	91	17.2
Consumer Preference		
Preferred to have car serviced by dealer who sells new car of make of used car purchased	7	1.3
Total	7	1.3
Dissatisfaction with Dealer		
Dissatisfaction with dealer	58	11.0
Dealer's repair charges too high	23	4.3
Total	81	15.3
All Others		
Miscellaneous	6	1.1
No answer or no reason given	21	4.0
Total	27	5.1
Total of Non-Returning Purchasers	343	64.8

[a] Service is defined as necessary adjustments and repairs—not oil changes and greasing.

dealers with service departments are getting 70 per cent of the business they should expect to get, although it might be pointed out that if dealers reduced their service charges many of those now doing their own service work probably would have it done. However, to get the additional business through this method might be costly, for many of the used-car buyers are mechanics who prefer to tinker with their cars

in their leisure time. The 81 purchasers who expressed dissatisfaction with the dealers' services may represent a goodly portion of unprofitable and undesirable patronage.

Although the findings of the foregoing survey are based on the consumers' reactions to the used-car market in the Cleveland, Ohio, area, in all likelihood they reflect conditions in other metropolitan areas similar to Cleveland.

CHAPTER XIV

FORWARD STEPS IN THE MARKETING OF USED AUTOMOBILES

At various times since the invalidation of the National Recovery Act, the National Automobile Dealers Association has sought to have legislation enacted, for the benefit of automobile dealers, which would limit used-car allowances. Failing to accomplish this, it has tried to enlist the support of automobile manufacturers, but according to the manufacturers' point of view, any steps in this direction would reduce the volume of new-car sales.

Federal Investigation

The general inability of automobile dealers to solve the problem of handling used cars profitably may be said to be one of the forces which motivated the demand for a Federal investigation of the motor-vehicle industry. The National Automobile Dealers Association and the automobile dealers of Wisconsin were ardent supporters of the efforts of the Honorable Gardner R. Withrow, Representative from Wisconsin, when he proposed that a Federal Trade Commission investigation of the distribution practices of the motor-vehicle industry be authorized. The congressional hearings on this proposal, held in December, 1937, and January, 1938, brought to light certain coercive practices of manufacturers which were detrimental to the policies of sound business for the dealers, threat of franchise cancellation being the club held over the dealers.

The practices most bitterly complained against in the hearings were the following:

1. Dealers were forced to meet arbitrary sales quotas and accept delivery on new cars whenever the factory shipped them, regardless of local sales demand. Moreover, frequently, models other than those on order were shipped. Under the stress of disposing of surplus new-car stock the dealers forced sales by granting excessive trade-in allowances.
2. Dealers were forced to carry large inventories of parts and accessories supplied solely by the manufacturers.

3. Manufacturers either directly or indirectly insisted that dealers obtain their wholesale financing from, and rediscount their retail sales paper with, the manufacturers' subsidiaries or affiliated finance companies.
4. Factory representatives frequently demanded that the dealers change their locations, expand their plants, and otherwise increase their capital equipment against their better judgments.

As a result of these hearings, on April 13, 1938, the President signed the resolution which directed the Federal Trade Commission to "investigate the policies employed by manufacturers in distributing motor vehicles, accessories and parts, and the policies of dealers in selling motor vehicles at retail, as these policies affect the public interest."[1] The investigation by the Federal Trade Commission was completed in 1939, and the report published in the latter part of that year.

The findings disclosed that automobile manufacturers were guilty of coercive practices; also, that automobile dealers and time-sales finance companies were guilty of malpractice in their relationships with consumers. On the question of coercion of dealers, which precipitated the entire investigation, the Commission recommended that automobile manufacturers revise their practices and adopt the following: (1) less restriction upon dealers in the management of their own enterprises; (2) quota requirements and shipments of cars based upon mutual agreement; (3) equitable liquidation in the event of contract termination by the manufacturer; (4) contracts definite as to mutual rights and obligations of the manufacturers and the dealers, including the specific provision that the contract will be continued for a definite term unless terminated by breech of reasonable conditions recited therein.[2]

The most flagrant abuses practiced by dealers and finance companies were: (1) price padding of new and used cars, (2) finance packing, (3) excessive insurance charges, and (4) the failure to present to consumers an itemized account of the various charges.

Concurrent with the disclosure of these malpractices, however, the Federal Trade Commission found much to commend in the automobile industry. Active competition has existed among automobile manufacturers and among automobile retailers, and the consumer has progressively received better values. Moreover, the Commission did not find any basic fault with the current method of distribution.

[1] H. J. Res. 594, Seventy-fifth Congress.
[2] Federal Trade Commission, *Report on Motor Vehicle Industry* (Washington, D. C., 1939), p. 1076.

The result of these findings indicated the soundness of the industry as a whole, and brought forth suggestions and recommendations for remedying the current abuses in the trade. The comment among dealers and factory sales executives has been that the Commission discovered nothing new, but verified many of the facts and situations which they had known existed.

The Maturing of the Automobile Industry

There are several evidences which make it apparent that the automobile industry is approaching a stage of maturity. By 1940, the number of different automobile manufacturers had dwindled to 11 from 88 in 1921, and of these, only 8 were important forces. Of these 8, the General Motors Corporation, the divisions of Chrysler, and the Ford Motor Company have been obtaining approximately 90 per cent of the sales in the past six years.

The days of rapid expansion are over; the current new demand is approximately 90 per cent for replacements, and an average annual market of between 2 million and 3 million new cars can be anticipated.

Since the depression years of the past decade have taken their toll of dealers, manufacturers have found themselves actively competing, in many instances, for representation by the existing dealers. Such competition, combined with the dealers' efforts to improve their status, has gradually resulted in more liberal franchise agreements between manufacturers and dealers, partially in anticipation of the recommendations which were expected from the Federal Trade Commission.

Manufacturers' Use of Selective Distribution

In addition to the granting of greater freedom to the dealer, some manufacturers are giving serious consideration to a policy of selective distribution, currently referred to in trade circles as "quality dealerships." This form of distribution either grants to a dealer exclusive territorial rights or restricts his competition in multiple-dealer areas.

Several of the General Motors Divisions seem to be practicing the policy of selective distribution to a greater or lesser degree; the Chevrolet Motor Division, early in 1937, outlined its plan of attack in determining each individual dealer's market potential. The plan embodied the following points: (1) size of market—passenger cars and trucks; (2) the location of all shopping centers; (3) the shift in population, year by year; (4) classification of population by incomes;

(5) the industries which support the population; (6) the strength and age of competition; (7) the location of the Chevrolet new- and used-car market—block by block; (8) the past, present, and future sales possibilities; (9) the proper locations for dealers to establish their new-car outlets; (10) the proper locations for dealers to establish their used-car outlets.[3]

The Ford Motor Company, while not giving the advocates of selective distribution public support, seems to be modifying its distribution program in some areas in line with this philosophy.

The Chrysler Corporation, which had a later start and is still rapidly expanding and gaining an increasing percentage of the market, shows no evidence of deviating from its policy that the more outlets a manufacturer has, the greater will be the total sales volume of the manufacturer.

The important independents—Studebaker, Nash, Packard, Hudson, and Willys—who are confronted with the problem of getting adequate dealer representation find the question an academic one. The dominance and popularity of the cars of the big three manufacturers make it difficult for the independent manufacturers to maintain consistently good representation.

If manufacturers adopt the policy of making a basic market analysis of their dealers' territories, it will permit the dealers to plan their marketing of new and used cars in a more orderly manner. The policy has particular significance with reference to used cars, for it is in the used-car market that the name and integrity of the dealer plays an important part. While the new-car buyer first singles out the car he desires to buy and then selects the dealer from whom he will buy it, the used-car buyer is more greatly influenced by the character and reputation of the dealer.

The argument can be presented that a selective system of distribution will permit dealers to raise their prices by reducing the consumers' opportunity to shop and obtain competitive bids. As long as there are 8 competing manufacturers with representatives actively bidding for consumers' business, there seems little danger in the possibility of dealers obtaining monopolistic prices.

In following selective distribution methods, the manufacturer also stands to gain. If dealers are given greater control and territorial protection over certain market areas, their performance and accom-

[3] "Market Analysis by Chevrolet," National Automobile Dealers Association, *Bulletin*, April, 1937, p. 6.

plishments can be more carefully checked and appraised by the manufacturers.

Selective distribution also reacts favorably upon the used-car market as far as the consumer is concerned. Generally, only new-car dealers who are firmly established in the automobile market have been able to attach due importance to the merchandising of used cars through separate sales departments for new and used cars, through systematic reconditioning of trade-ins for resale, and through the maintenance of adequate stocks. The small, marginal dealers can secure new-car stock for customers on special order, but usually their facilities to handle used cars are too limited to assure satisfaction to their used-car purchasers.

There seems to be a trend in the direction of large-scale dealerships, and, from the facts that have been disclosed by this study of the marketing of used cars, it is reasonable to believe that this trend will continue. The recent depression years have impressed upon manufacturers their need for a strong body of dealers who can weather the violent cyclical swings in the automobile market.

Forward Steps Which Can Be Taken by Dealers

Every new-car dealer must recognize that his used-car department is a permanent and vital part of his business, and that his activities in handling this merchandise must be as carefully planned and controlled as his marketing of new cars.

Improvements that can take place in the various marketing functions—i.e., in buying and preparing the merchandise for the market, in inventory control, in advertising and selling, in financing, and in the collection and dissemination of market information—have been elaborated upon in the foregoing chapters.

If the Federal Trade Commission's recommendations are made effective, if manufacturers' coercive practices are curtailed and the dealers are given reasonable market protection through a selective distribution policy, dealers will find little excuse to continue such practices as price padding, finance packing, and inadequate reconditioning of used cars as a means of protecting their equities and assuring themselves of reasonable profits.

However, from a realistic point of view, the fact that such practices would no longer be imperative for survival in business would not automatically cause all dealers to desist from them. Once having learned how to extract dollars from the consumers, the dealers as a class may continue until social pressure or legislation stops them.

Forward Steps Which Can Be Sponsored by Cooperation in the Industry

The manufacturers' growing interest and increasing participation in the marketing of used cars will result in more effective supervision of their dealers' reconditioning methods and used-car merchandising practices. With this change in attitude, it is reasonable to believe that the responsible automobile manufacturers will insist that their dealers merchandise their used cars honestly, and cultivate consumer goodwill.

Automobile-dealer associations are aware that automobile retailing cannot achieve consumer confidence unless the members of the automobile trade warrant it through trustworthy consumer relationships. Recognition of this principle is found in the support which dealers are giving to the Better Business Bureaus in many cities. The consciousness of some newspaper publishers in metropolitan areas that they bear a responsibility, both to their readers and to honest advertisers, to accept and run only truthful advertising can be recommended to all publishers. Thus, fraudulent and bait advertising of used cars could be reduced.

Some of the malpractices, however, require legislative action to correct and control. In general, states have placed limits on interest rates charged on personal loans, but not on rates charged for financing retail sales. The absence of a legal limit makes it difficult to determine if charges for financing have been excessive. Wisconsin, alone, has set a limit of 15 per cent for an annual charge on sales financing. Similar legislation in other states seems desirable.

Whereas the general principle of licensing dealers, to insure dealer profits through limitation of competition, is a dubious measure from the point of view of the consumer, the annual licensing of dealers to curb malpractices may be desirable. Some contracts which customers sign but seldom read absolve the dealer from responsibility and deny the consumer redress should he later learn that the car has been used as a taxicab, or is a rebuilt wreck or a stolen car. Such practices could not long be continued if they were grounds for refusing to the dealer a renewal of his annual license to operate.

The marketing of used cars constitutes a complex problem. Its improvement is dependent upon the efforts of all parts of the industry. This study has convinced the writer that improvements have been made. The recent Federal Trade Commission investigation and the attention attracted to the industry in the past few years have motivated the elimination of many malpractices. The growing stability of the industry in itself should accelerate improvement in the marketing methods employed in handling used automobiles.

APPENDIX A

Annual Depreciation in Retail Sales Prices in Per Cent of Original Delivered Prices, in Cleveland, Ohio, for 4-Door Sedans of Selected Makes

Source: Calculated from data derived from N. A. D. A. *Official Used Car Guide,* and original delivered prices of new cars in Cleveland secured from the Cleveland Automotive Trade Association. N. A. D. A. data were issued March, 1939, as a summary of used-car values for the State of Illinois as of the month of December for the years 1933-1938, inclusive, for tax purposes for Illinois dealers. Prices are considered to be applicable to Cleveland, Ohio, inasmuch as this city is in the same price zone with Illinois.)

Make of Car	Model Year	Delivered Price in Cleveland, Ohio	Per Cent of Annual Depreciation in Models							Residual Value
			Current Year	1 Year Old	2 Years Old	3 Years Old	4 Years Old	5 Years Old	6 Years Old	
AUBURN										
	1932	$1,040		35	23	12	8	9	4	9
	1933	975		46	14	10	10	7		13
	1934	1,675		47	20	12	10			11
	1935	1,195		48	19	14				19
BUICK 40 OR 50										
	1932	1,130		43	11	11	11	5	7	12
	1933	1,192		37	20	10	8	9		16
	1934	1,358		48	15	8	9			20
	1935	1,027		44	11	13				32
	1936	1,045		42	13					45
	1937	1,050		40						60
	1938	1.077	33							67
BUICK 60										
	1932	1,460		52	10	10	8	5	5	10
	1933	1,470		46	16	10	7	7		14
	1934	1,638		51	16	8	8			17
	1935	1,611		60	10	9				21
	1936	1,284		50	12					38
	1937	1,266		47						53
	1938	1,299	38							62
BUICK 80										
	1932	1,740		54	11	10	7	5	5	8
	1933	1,748		51	16	9	6	6		12
	..	....					.			..
	..	....								..
	1936	1,466		55	11					34
	1937	1,581		57						43
	1938	1,673	42							58
BUICK 90										
	1932	1,815		53	12	10	7	5	5	8
	1933	1,990		50	19	10	6	5		10
	1934	2,180		55	18	8	6			13
	1935	2,174		65	12	7				16
	1936	2,007		65	10					25
	1937	2,166		67						33
	1938	2,207	47							53

APPENDIX A (Continued)

Make of Car	Model Year	Delivered Price in Cleveland, Ohio	Per Cent of Annual Depreciation in Models							Residual Value
			Current Year	1 Year Old	2 Years Old	3 Years Old	4 Years Old	5 Years Old	6 Years Old	
CADILLAC V-8										
	1932	$3,070		46	18	11	10	7	3	5
	1933	3,120		55	12	13	7	6		7
	1934	2,845		52	18	11	8			11
	1935	2,665		59	15	9				17
	1936	1,830		56	13					31
	1937	1,795		58						42
	1938	1,830	41							59
CADILLAC V-12										
	1932	3,785		54	13	10	10	6	3	4
	1933	3,855		54	15	13	7	5		6
	1934	4,525		53	22	13	5			7
	1935	4,360		63	19	7				11
	1936	3,430		68	13					19
	1937	3,670		71						29
	1938	3,360	48							52
CHEVROLET										
	1932	719		43	6	8	11	7	8	17
	1933	667		31	11	14	7	14		23
	1934	640		36	14	10	13			27
	1935	624		36	12	15				37
	1936	670		37	16					47
	1937	758		46						54
	1938	751	32							68
CHEVROLET MASTER										
	1934	757		37	14	8	14			27
	1935	724		36	11	14				39
	1936	759		37	16					47
	1937	835		45						55
	1938	817	32							68
CHRYSLER 6										
	1932	1,010		51	14	6	7	6	5	11
	1933	990		43	10	10	8	10		19
	1934	957		40	13	10	12			25
	1935	947		42	10	13				35
	1936	1,000		41	16					43
	1937	930		40						60
	1938	1,025	32							68
CHRYSLER ROYAL 8										
	1933	1,150		45	9	12	9	9		16
	..	....								..
	1935	1,098		45	13	12				30
	1936	1,180		47	16					37
	1937	1,160		48						52
	1938	1,221	37							63
CHRYSLER AIRFLOW										
	1933	1,585		51	12	10	8	7		12
	1934	1,808		46	18	14	8			14
	1935	1,605		48	19	11				22
	1936	1,645		55	16					29
	1937	1,652		59						41

APPENDIX A (Continued)

Make of Car	Model Year	Delivered Price in Cleveland, Ohio	Per Cent of Annual Depreciation in Models: Current Year	1 Year Old	2 Years Old	3 Years Old	4 Years Old	5 Years Old	6 Years Old	Residual Value
DeSoto										
	1932	$ 875		64	2	3	8	5	6	12
	1933	898		41	11	10	8	10		20
	1934	1,152		45	14	9	11			21
	1935	910		41	10	14				35
	1936	935		37	18					45
	1937	889		40						60
	1938	985	32							68
Dodge										
	1932	965		48	7	9	10	6	7	13
	1933	783		37	10	12	9	12		20
	1934	892		40	11	10	14			25
	1935	827		37	10	15				38
	1936	840		35	16					49
	1937	840		38						62
	1938	923	31							69
Ford V-8										
	1932	659		41	6	8	11	9	8	17
	1933	674		33	14	12	9	13		19
	1934	670		35	15	11	15			24
	1935	659		36	14	15				35
	1936	668		37	17					46
	1937	712		44						56
	1938	754	34							66
Ford V-8 DeLuxe										
	1932	700		43	7	7	10	9	7	17
	1933	730		38	12	11	8	13		18
	1934	711		37	14	10	16			23
	1935	721		38	13	16				33
	1936	714		37	19					44
	1937	780		45						55
	1938	815	34							66
Ford V-8 (60)										
	1937	679		52						48
	1938	728	36							64
Graham										
	1932	925		57	9	8	7	5	4	10
	1933	945		47	9	10	9	10		15
	1934	916		49	9	10	12			20
	1935	962		46	13	14				27
	1936	780		41	17					42
	1937	795		46						54
	1938	1,085	40							60
Hudson 6										
	1933	1,013		57	7	7	6	9		14
	1934	925		39	11	11	18			22
	1935	874		41	9	17				33
	1936	928		39	20					41
	1937	997		44						56
	1938	1,051	37							63

APPENDIX A (Continued)

Make of Car	Model Year	Delivered Price in Cleveland, Ohio	Per Cent of Annual Depreciation in Models							Residual Value
			Current Year	1 Year Old	2 Years Old	3 Years Old	4 Years Old	5 Years Old	6 Years Old	
Hudson 8										
	1932	$1,195		50	14	7	7	6	7	9
	1933	1,300		60	5	6	8	9		12
	1934	1,020		39	14	11	16			20
	1935	955		41	11	16				31
	1936	994		41	18					41
	1937	1,058		45						55
	1938	1,127	37							63
Hudson Custom 8										
	1932	1,575		55	15	5	8	5	6	7
	1933	1,710		60	9	7	7	8		9
	1934	1,333		42	16	11	13			18
	1935	1,256		48	13	14				25
	1936	1,081		43	18					39
	1937	1,185		49						51
	1938	1,222	39							61
Hupmobile										
	1932	1,097		50	14	6	9	8	4	9
	1933	1,139		49	10	10	11	8		12
	1934	1,028		49	12	14	9			16
	..	....								..
	1936	984		59	12					29
Lafayette										
	1934	808		42	15	8	11			24
	1935	773		42	12	12				34
	1936	792		43	13					44
	1937	859		42						58
	1938	894	33							67
LaSalle										
	1932	2,670		45	19	13	9	6	3	5
	1933	2,395		47	20	13	7	5		8
	1934	1,825		50	18	10	7			15
	1935	1,690		60	9	10				21
	1936	1,360		49	15					36
	1937	1,355		49						51
	1938	1,445	38							62
Lincoln										
	1932	3,265		48	19	10	10	6	3	4
	1933	3,265		50	16	14	7	6		7
	1934	3,550		52	21	11	7			9
	1935	4,500		62	17	10				11
	1936	4,500		67	18					15
	1937	4,600		72						28
	1938	5,100	50							50
Lincoln-Zephyr										
	1936	1,405		50	15					35
	1937	1,339		50						50
	1938	1,460	38							62
Nash 6										
	1932	953		63	2	9	7	4	5	10
	1933	866		45	9	12	8	9		17

APPENDIX A (Continued)

Make of Car	Model Year	Delivered Price in Cleveland, Ohio	Per Cent of Annual Depreciation in Models: Current Year	1 Year Old	2 Years Old	3 Years Old	4 Years Old	5 Years Old	6 Years Old	Residual Value
NASH 6 (Continued										
	1934	$ 953		44	12	8	13			23
	1935	1,074		48	10	12				30
	1936	858		43	15					42
	1937	1,070		45						55
	1938	1,085	35							65
NASH 8										
	1932	1,077		63	4	8	6	5	5	9
	1933	960		48	9	10	6	11		16
	1934	1,268		46	17	9	10			18
	1935	1,325		54	10	11				25
	1936	1,160		47	14					39
	1937	1,210		48						52
	1938	1,235	38							62
OLDSMOBILE 6										
	1932	1,035		60	1	9	8	5	6	11
	1933	950		41	11	11	9	11		17
	1934	861		38	11	10	14			27
	1935	891		40	9	14				37
	1936	933		37	16					47
	1937	995		42						58
	1938	1,039	33							67
OLDSMOBILE 8										
	1932	1,135		60	2	8	8	6	6	10
	1933	1,060		45	10	10	9	10		16
	1934	1,103		42	15	10	12			21
	1935	1,053		43	12	13				32
	1936	1,068		44	14					42
	1937	1,122		47						53
	1938	1,175	38							62
PACKARD 6										
	1937	1,115		47						53
	1938	1,099	33							67
PACKARD LIGHT 8										
	1932	2,060		39	20	12	10	6	6	7
	1933	2,365		43	19	12	9	7		10
	1934	2,525		51	18	10	8			13
	1935	2,610		56	16	10				18
	1936	2,619		57	18					25
PACKARD 8										
	1932	2,405		46	15	12	10	7	4	6
	1933	2,585		46	17	13	8	7		9
	1934	2,790		53	17	8	9			13
	1935	2,815		56	16	11				17
	1936	2,823		59	17					24
	1937	2,710		61						39
PACKARD SUPER 8										
	1932	3,680		55	15	10	8	5	3	4
	1933	2,950		47	17	14	8	6		8
	1934	3,180		54	16	11	8			11
	1935	3,250		58	16	11				15

APPENDIX A (Continued)

Make of Car	Model Year	Delivered Price in Cleveland, Ohio	Per Cent of Annual Depreciation in Models: Current Year	1 Year Old	2 Years Old	3 Years Old	4 Years Old	5 Years Old	6 Years Old	Residual Value
PACKARD SUPER 8 (Continued)										
	1936	$3,259		61	16					23
	1937	2,870		62						38
	1938	2,860	42							58
PACKARD 12										
	1932	4,560		60	11	9	8	6	3	3
	1933	4,100		56	14	12	8	5		6
	1934	4,210		55	18	11	7			9
	1935	4,255		58	18	11				13
	1936	4,263		65	16					19
	1937	3,965		66						34
	1938	4,220	47							53
PIERCE-ARROW 8										
	1932	2,895		46	19	13	8	7	3	4
	1933	3,215		57	15	8	7	6		7
	1934	3,105		56	14	13	7			10
	1935	3,105		56	17	13				14
	1936	3,420		65	17					18
PLYMOUTH										
	1932	710		61	8	1	5	5	6	14
	1933	597		36	7	12	9	14		32
	1934	692		36	13	10	14			27
	1935	700		37	11	16				36
	1936	687		38	16					46
	1937	682		40						60
	1938	747	31							69
PLYMOUTH DELUXE										
	1932	790		59	2	1	10	6	7	15
	1933	675		30	13	12	7	14		24
	1934	786		39	12	9	14			26
	1935	752		38	11	14				37
	1936	767		36	16					48
	1937	762		39						61
	1938	826	31							69
PONTIAC 6										
	1932	843		47	7	8	11	7	6	14
	..	....								..
	..	....								..
	1935	804		39	11	14				36
	1936	826		39	14					47
	1937	935		43						57
	1938	942	31							69
PONTIAC 8										
	1932	1,028		56	9	6	8	6	5	10
	1933	808		34	12	14	8	13		19
	1934	894		41	13	10	13			23
	1935	929		42	11	14				33
	1936	920		42	13					45
	1937	1,008		44						56
	1938	1,032	32							68

APPENDIX A (Continued)

Make of Car	Model Year	Delivered Price in Cleveland, Ohio	Per Cent of Annual Depreciation in Models							Residual Value
			Current Year	1 Year Old	2 Years Old	3 Years Old	4 Years Old	5 Years Old	6 Years Old	
REO FLYING CLOUD										
	1932	$1,095		54	12	6	8	9	3	8
	1933	1,145		58	5	10	11	5		11
	1934	1,015		43	14	18	9			16
	1935	975		48	17	12				23
	1936	995		57	12					31
STUDEBAKER 6										
	1932	991		42	11	11	10	7	7	12
	1933	1,058		48	11	10	6	11		14
	1934	854		40	11	10	15			24
	1935	882		43	8	14				35
	1936	887		33	18					49
	1937	915		40						60
	1938	995	31							69
STUDEBAKER 8										
	1932	1,467		52	12	8	8	7	5	8
	1933	1,555		54	13	9	7	7		10
	1934	1,421		51	15	9	9			16
	1935	1,527		53	15	9				23
	1936	1,228		47	15					38
	1937	1,230		50						50
	1938	1,235	36							64
TERRAPLANE										
	1934	786		39	12	12	15			22
	1935	749		36	10	21				33
	1936	787		36	20					44
	1937	810		42						58
	1938	892	34							66
TERRAPLANE SUPER										
	1934	856		41	11	11	15			22
	1935	808		37	10	20				33
	1936	849		38	20					42
	1937	890		44						56
	1938	940	34							66

APPENDIX B

National Automobile Dealers Association Special Trade Survey

Comparison Dealers of All Makes in Years 1933, 1934, 1935, 1936, 1937 and 1938

New- and Used-Car Departments Only

CHART I	AMOUNT FOR EACH YEAR					
	1933	1934	1935	1936	1937	1938
1—Dealers Reporting	982	1,058	931	412	160	160
2—New-Car Units Sold	154,250	193,909	201,516	117,426	40,564	24,890
3—Used-Car Units Handled	283,691	325,364	331,484	204,306	73,751	56,720
4—New-Car Sales (Net)	$122,277,635	$159,509,678	$171,165,350	$100,251,201	$38,191,317	$25,041,822
5—Gross Margin, Retail New Cars	29,889,695	35,029,177	38,228,047	23,428,976	9,525,205	6,172,480
Minus Prior Deductions:						
6—*"Cleanup" discounts	146,763*	284,452*	272,176*	259,574*	135,758*	94,445*
7—*"Fleet" discounts	1,384,186*	1,883,935*	1,843,932*	859,740*	386,092*	311,660*
8—*Used-Car Gross *Loss** (true)	4,191,562*	1,315,603*	4,278,271*	4,035,878*	1,756,158*	1,126,726*
9—*Total Prior Deductions	5,722,511*	3,483,990*	6,394,379*	5,155,192*	2,278,008*	1,532,831*
10—Remainder, New Car Gross Margin Salvaged	24,167,184	31,545,187	31,833,668	18,273,784	7,247,197	4,639,649
11—Used-Car Expense	9,721,925	12,059,899	12,082,219	7,159,509	3,171,057	2,606,402
12—Leaving a remaining New-Car Gross Margin for Newer Car Expense and Net Profit	14,445,259	19,485,288	19,751,449	11,114,275	4,076,140	2,033,247
13—New-Car Expense	18,042,316	24,026,995	22,701,456	11,314,862	4,514,314	3,274,812
14—Net *Loss** (true merchandising)	3,597,057*	4,541,707*	2,950,007*	200,587*	438,174*	1,241,565*
15—Less Finance Reserve)	879,173	1,076,976	1,218,133	726,054	333,345	267,242
16—Final Net Profit or Loss* after Finance Reserve Credited	2,717,884*	3,464,731*	1,731,874*	525,467	104,829*	974,323*

CHART I	PER CENT OF NEW-CAR SALES											
	1933	1934	1935	1936	1937	1938	1933	1934	1935	1936	1937	1938
									Average Units	per Dealer		
1—Dealers Reporting												
2—New-Car Units Sold							157	183	216	285	254	156
3—Used-Car Units Handled							289	308	356	496	398	354
									Per New-Car	Unit Sold		
4—New-Car Sales (Net)	100	100	100	100	100	100	$792.72	$822.60	$849.39	$853.74	$941.51	$1,006.10
5—Gross Margin, Retail New Cars	24.44	21.96	22.33	23.37	24.94	24.65	193.77	180.65	189.70	199.52	234.82	247.99
Minus Prior Deductions:												
6—*"Cleanup" discounts	0.12*	0.18*	0.16*	0.26*	0.34*	0.38*	0.95*	1.47*	1.35*	2.21*	3.35*	3.79*
7—*"Fleet" discounts	1.13*	1.18*	1.08*	0.86*	1.02*	1.24*	8.97*	9.72*	9.15*	7.32*	9.52*	12.52*
8—*Used-Car Gross *Loss** (true)	3.43*	0.82*	2.50*	4.02*	4.60*	4.50*	27.18*	6.78*	21.23*	34.37*	43.29*	45.27*
9—*Total Prior Deductions	4.68*	2.18*	3.74*	5.14*	5.96*	6.12*	37.10*	17.97*	31.73*	43.90*	56.16*	61.58*
10—Remainder, New Car Gross Margin Salvaged	19.76	19.78	18.59	18.23	18.98	18.53	156.67	162.68	157.97	155.62	178.66	186.41
11—Used-Car Expense	7.95	7.56	7.06	7.14	8.30	10.41	63.02	62.19	59.95	60.97	78.17	104.72
12—Leaving a remaining New-Car Gross Margin for Newer Car Expense and Net Profit	11.81	12.22	11.53	11.09	10.68	8.12	93.65	100.49	98.02	94.65	100.49	81.69
13—New-Car Expense	14.75	15.06	13.26	11.29	11.82	13.08	116.97	123.91	112.65	96.36	111.29	131.57
14—Net *Loss** (true merchandising)	2.94*	2.84*	1.73*	0.20*	1.14*	4.96*	23.32*	23.42*	14.63*	1.71*	10.80*	49.88*
15—Less Finance Reserve)	0.72	0.67	0.71	0.72	0.87	1.07	5.70	5.55	6.04	6.18	8.22	10.74
16—Final Net Profit or Loss* after Finance Reserve Credited	2.22*	2.17*	1.02*	0.52	0.27*	3.89*	17.62*	17.87*	8.59*	4.47	2.58*	39.14*

*LOSS indicated by asterisk.

39-38—3-20-39

APPENDIX B (Continued)

Totals of All Departments at Retail

CHART II	AMOUNT FOR EACH YEAR						PER CENT OF TOTAL SALES						Per New Car Unit Sold					
	1933	1934	1935	1936	1937	1938	1933	1934	1935	1936	1937	1938	1933	1934	1935	1936	1937	1938
1—Dealers Reporting	982	1,058	931	412	160	160												
2—New-Car Units Sold	154,250	193,909	201,516	117,426	40,564	24,890												
3—Used-Car Units Handled	283,691	325,364	331,484	204,306	73,751	56,720							1.84	1.68	1.65	1.74	1.82	2.28
4—Total Sales (Net)	$220,217,226	$283,713,344	$296,464,870	$173,701,165	$68,511,041	$50,563,559	100	100	100	100	100	100	$1,427.66	$1,463.13	$1,471.17	$1,479.24	$1,688.96	$2,031.48
5—Gross Margin, Departments earning	46,340,341	55,566,748	56,786,974	33,250,892	13,853,392	10,158,048	21.04	19.59	19.15	19.14	20.22	20.09	300.42	286.56	281.80	283.16	341.52	408.11
Minus Prior Deductions:																		
6—"Cleanup" discounts	146,763*	284,452*	272,176*	259,574*	135,758*	94,445*	0.07*	0.10*	0.09*	0.15*	0.20*	0.19*	0.95*	1.47*	1.35*	2.21*	3.35*	3.79*
7—"Fleet" discounts	1,384,186*	1,883,935*	1,843,932*	859,740*	386,092*	311,660*	0.63*	0.66*	0.62*	0.49*	0.56*	0.62*	8.97*	9.72*	9.15*	7.32*	9.52*	12.52*
8—*Used-Car Gross *Loss** (true)	4,191,562*	1,315,603*	4,278,271*	4,035,878*	1,756,158*	1,126,726*	1.90*	0.47*	1.44*	2.33*	2.56*	2.22*	27.18*	6.78*	21.23*	34.37*	43.29*	45.27*
9—Total Prior Deductions	5,722,511*	3,483,990*	6,394,379*	5,155,192*	2,278,008*	1,532,831*	2.60*	1.23*	2.15*	2.97*	3.32*	3.03*	37.10*	17.97*	31.73*	43.90*	56.16*	61.58*
10—Remainder, Gross Margin Salvaged	40,617,830	52,082,758	50,392,595	28,095,700	11,575,384	8,625,217	18.44	18.36	17.00	16.17	16.90	17.06	263.32	268.59	250.07	239.26	285.36	346.53
11—Total Departmental Expense	31,450,918	40,664,690	36,320,485	18,819,070	7,872,291	6,306,198	14.28	14.33	12.25	10.83	11.49	12.47	203.89	209.71	180.24	160.26	194.07	253.36
12—Total Indirect Expense prorated	9,859,495	12,225,671	12,997,711	7,034,864	3,122,376	2,567,222	4.48	4.31	4.39	4.05	4.56	5.08	63.92	63.04	64.50	59.91	76.97	103.14
13—Grand Total Expense	41,310,413	52,890,361	49,318,196	25,853,934	10,994,667	8,873,420	18.76	18.64	16.64	14.88	16.05	17.55	267.81	272.75	244.74	220.17	271.04	356.50
14—Operating Net Profit of Departments earning N. P.	13,220,904	12,567,899	17,434,889	13,437,153	5,507,932	3,484,925	6.01	4.43	5.88	7.74	8.04	6.89	85.71	64.81	86.52	114.43	135.78	140.01
15—Operating Net *Loss** of Departments showing Net *Loss** (Used Cars)	13,913,487*	13,375,502*	16,360,490*	11,195,387*	4,927,215*	3,733,128*	6.32*	4.71*	5.52*	6.45*	7.19*	7.38*	90.20*	68.97*	81.19*	95.34*	121.47*	149.98*
16—Final Operating Net Profit or Loss,* All Departments	692,583*	807,603*	1,074,399	2,241,766	580,717	248,203*	0.31*	0.28*	0.36	1.29	0.85	0.49*	4.49*	4.16*	5.33	19.09	14.32	9.97*
17—Plus Finance Reserve earned	879,173	1,076,976	1,218,133	726,054	333,345	267,242	0.40	0.38	0.41	0.42	0.49	0.53	5.70	5.55	6.04	6.18	8.22	10.74
18—Plus Other Misc. Income	2,246,161	2,582,600	2,357,832	1,357,753	561,371	510,437	1.01	0.91	0.80	0.78	0.81	1.01	14.56	13.32	11.70	11.56	13.83	20.50
19—Net Profit before Other Ded.	2,432,751	2,851,973	4,650,364	4,325,573	1,475,433	529,476	1.10	1.01	1.57	2.49	2.15	1.05	15.77	14.71	23.07	36.83	36.37	21.27
20—*Minus Other Deductions	1,943,823*	1,913,559*	1,641,509*	1,901,359*	534,464*	423,777*	0.88*	0.68*	0.55*	1.09*	0.78*	0.84*	12.60*	9.87*	8.14*	16.19*	13.17*	17.03*
21—Total Final Net Income, All Departments and Including Finance Reserve Earned	488,928	938,414	3,008,855	2,424,214	940,969	105,699	0.22	0.33	1.02	1.40	1.37	0.21	3.17	4.84	14.93	20.64	23.20	4.24

*LOSS indicated by asterisk.

39-39—3-20-39

APPENDIX C

The Marketing Regulation for the German Automobile Industry

(Source: Address delivered by Director Dalchow, Manager of the German Automobile Trustee Company, Ltd., at the International Meeting of the Automobile Industry, Berlin, Germany, February 21, 1937, pp. 3-5.)

Contents of the Marketing Regulation

1. In order to avoid uneconomic and unfair competition and the resulting reduction of profits, it was laid down that no industrial firm should sell vehicles which it regularly manufactured for less than the cost of production, and, further that dealers (independent dealers and the works themselves) are forbidden to grant favours to individual customers in the form of special advantages of any kind, whether openly or secretly.
2. In the interests of the consumers as a whole, express provision was made to enable all factories to produce the best technical and economic achievements within the scope of fair competition, so that, in spite of cartel engagements, every industrial firm is entitled and also economically still compelled constantly to endeavor to maintain or increase its proportion of marketing by improving the quality and value of its products in fair competition.
3. In order to get rid of the international vocational inclination to disguise special advantages accorded to individual customers by intentionally or unintentionally overvaluing old cars to be taken in part payment, it was laid down that all such cars without exception may not be accepted until they have been valued by one of the valuation offices of the D. A. T. and when the amount set off as part payment is not more than the value assessed by that office.
4. With a view to relieving the trade from unproductive costs as far as possible, it was laid down that commissions may now, as a rule, only be paid to independent undertakings in the motor vehicle trade—especially the repair shops—up to a maximum of 2.5% of the price of the vehicle, and hence no longer to persons working in garages, filling stations, driving schools or chauffeurs, for only the former and not the latter are in a position to promote the general sale of motor vehicles of all makes.
5. In the interests of the consumers, the dealers and the industry, it has also been provided that dealing in motor vehicles, which represent considerable capital values for the average purchaser, shall in future only be done by persons of reliable character with technical knowledge, and that such persons shall only be allowed to act as dealers if they possess the necessary business equipment, the necessary working capital and a contract as agent for a certain make of vehicle, keep regular books and furnish security for any conventional fines arising out of breaches of the liabilities undertaken.

As the business relations between the trade and the customer do not end, as in most other branches of trade, with the delivery of the article purchased, but really only begin then and last for many years, the minimum requirements for dealers are intended to lead to a choice of dealers with the necessary character and business ability, without interfering with the development of a class of suitable younger dealers.

6. In view of the extraordinary differences between power of acquisition and business capacity of individual automobile dealers and the size and purchasing power of the various agency districts, provision was made only for maximum and minimum dealers' rebates; otherwise the remuneration of dealers is to be settled by individual agreement between those concerned on the principle of service rendered. Furthermore this regulation also guides into suitable channels the competition between individual industrials to secure individual dealers.
7. In order to protect all firms observing the agreement from such persons as contravene the provisions of the Marketing Regulation of their vocational community, conventional fines are provided for. The conventional fines are imposed by the D. A. T. after thorough investigation of every case of contravention—these being brought to the notice of the D. A. T. either by reports from competitors or by its own examiners of business books—to an extent of about one and a half times the dealer's gross profit in the case of intentional breaches and to a corresponding lesser extent in the case of contraventions due to negligence, and paid on receipt into a community fund, of which the surplus is utilized for welfare purposes or the common benefit and not to meet the current expenses of the D. A. T.
8. Any appeal from the conventional fines imposed by the D. A. T. and also the conduct of other disputes arising out of the Marketing Regulation must be decided by a permanent court of arbitration consisting of a chairman and two assessors, the chairman with the qualifications of judges and the assessors with suitable technical knowledge being appointed officially.

APPENDIX D

Standards for Used-Car Classified Advertising Enforced by the Cleveland Better Business Bureau, Inc.

(In Effect May, 1940)

1. Truthful

   Any advertised statements and offers as to make, model, year, condition, equipment, price, terms, trade, etc. shall be based upon facts.

   a. In any advertised offers to purchase used cars the terms of purchase must be clearly set forth and based upon facts. Advertising any stated trade-in price for any and all cars irrespective of condition shall be barred.

2. Bait

   Cars advertised for sale shall be in the possession of advertiser, as advertised and at address given in copy, upon appearance of the advertisement, and willingly sold at the advertised price and terms. If sold, proof of sale shall be available on request of the Cleveland Better Business Bureau. Bait advertising shall not be used.

3. New cars of current model may not be advertised in used-car advertising. If a current model automobile is offered in the used-car columns, it must indicate by some wording such as "run 1000 miles," "demonstrator," "executive's car" or similar phraseology that the car is not brand new.

4. Year, Type, etc.

   The year and type of each car must be stated in each advertisement and must agree in every respect with the registration in a recognized used-car market report; e.g.—"1934 Maxwell Sedan." Cars advertised at $75 or under need not have the year specified.

   a. In advertising a group of cars at a range of prices, the range of year models must also be given; e.g.—"10 Maxwells $40 to $450—1926 to 1934 models."

   b. In advertising a group of cars wherein a price is mentioned, the range of prices must be stated in the same size type; e.g.—"Maxwells, Velies, Chandlers—1926 to 1934 models—$25 to $450."

   c. An advertised price for a single car falsely applied to a group of cars shall be barred.

5. Demonstrators

   The word "demonstrator" shall be understood to refer to a car which has never been sold to a member of the public; this term describes cars used by new-car dealers or their salesmen for demonstrating performance ability but not cars purchased by such dealers or salesmen and used as their personal cars. Demonstrators may be advertised for sale as such only by an authorized dealer in the same make of car.

6. "Executives' and Officials' Cars"

   "Executives' and Officials'" cars, when so advertised must have been

used by executives or the parent motor car manufacturers' personnel or by an executive of an authorized dealer in the same make of car. These cars, so advertised, must not have been sold to a member of the public prior to the appearance of the advertisement.

7. "REPOSSESSED"
The term "repossessed" shall only be used to describe such cars as have been presently and directly taken back from a purchaser by the advertiser. The advertiser shall exhibit on request of the Cleveland Better Business Bureau, chattel mortgage, conditional sales contract, or other documents to verify repossession. In any advertisement offering repossessed cars all cars listed must be repossessed.

8. "DRIVING TRIAL," "FREE DRIVING TRIAL"
Statements such as "driving trial," "free driving trial" or any statements of similar import may not be used in used-car advertising unless the advertised car may be taken out for a trial period by the prospective purchaser without paying any consideration either in the form of money, trade-in merchandise or the signing of an obligation to pay money or trade-in merchandise.

9. REFERENCE
District G Edition of the National Automobile Dealers Association *Official Used Car Guide* is recognized as and will be used as the official reference book in connection with these standards.

10. In classified advertising, the word "new" may not be used as pertaining to the automobile itself, but it is permissible in describing appurtenances, such as "new paint," or "new tires"; but expressions such as "like new" or "almost new," "like day it left factory" as pertaining to the car itself must be omitted.

11. The only pictures of cars which can be used in a classified ad are of the car listed for sale in that advertisement at the price advertised.

12. There shall be considered as objectionable advertising and merchandising, and therefore barred as such, the lending of the name of any reputable and authorized automobile distributor to outside parties for the selling of distress merchandise.

13. Statements in advertising which reflect in a derogatory manner on the reputation, business, merchandise offerings, prices or and, etc. of a competitor shall not be permitted in used-car advertising.
    a. The use of the superlative in such a way as to reflect on other advertisers is barred.

14. Advertisements which quote a low price based only on all cash shall specify that such is an all-cash price.

15. The advertising of any automobile dealer who has not been properly licensed or whose license is under suspension or has been revoked under the terms of the Automobile Dealers' and Salesmen's Licensing Law, shall be barred.

16. When advertising free merchandise the advertisement must be specific as to the limitations of the offer. Example—it has been found in some cases where, for instance, a free heater is offered, that the free heater only goes with cars priced at $200 and up. In such a case the ad should state "free heaters with cars priced at $200 or more."

17. The advertising of radios, heaters, or other appurtenances in connection with the sale of used cars must be truthful and based on fact, and will be understood to mean that such appurtenances are in workable order or usable condition.
18. Any automobile offered for sale in an advertisement which has formerly been used for hire, wrecked, and not repaired or reconditioned, flooded with water and is not in running condition, shall be plainly and unequivocally described as such in descriptive words the same size type as the price, and directly in connection with the price.
19. COMPLIANCE

    Publication of untruthful, misleading and unlawful advertisements by advertisers, refusal to furnish the Cleveland Better Business Bureau with pertinent information in case of complaint from any source, will be deemed sufficient cause to recommend suspension of advertising privileges. Misleading advertising includes (but is not limited to) inaccuracies, mis-statements, and confusing layout of copy.

APPENDIX E

Composite Experience of Sales Finance Companies and Automobile Dealers — 1938

Fourteenth Annual Compilation by National Association of Sales Finance Companies, Chicago, Illinois

Part 1: Finance Company Data

Year	Thousands of Cars Financed			Millions of Dollars				Average Note Purchased			Per Cent of Cars Repossessed			Loss per Repossession		
				Retail Paper			Wholesale									
	New (1)	Used (2)	All (3)	New (4)	Used (5)	All (6)	(7)	New (8)	Used (9)	All (10)	New (11)	Used (12)	All (13)	New (14)	Used (15)	All (16)
United States																
1925	..	..	..	..	..	..	..	$550	$280	..	2.1	3.6	..	..	..	$55
1926	..	..	..	..	..	..	..	595	277	..	2.4	4.7	..	..	..	69
1927	..	..	..	..	..	..	..	574	286	..	2.9	5.3	..	..	..	45
1928	1,333	1,133	2,466	848	348	1,196	..	635	307	$485	2.9	5.6	4.1	..	..	59
1929	1,892	1,656	3,548	1,126	491	1,617	678	595	297	456	3.0	5.6	4.2	..	..	63
1930	1,381	1,609	2,990	778	450	1,228	661	564	280	411	3.7	6.9	5.4	..	..	65
1931	1,028	1,420	2,448	570	380	950	554	554	268	388	4.5	11.4	8.5	..	..	47
1932	555	967	1,522	303	233	536	330	546	241	352	5.7	13.1	10.4	..	..	59
1933	760	1,068	1,828	392	235	627	500	516	220	343	2.8	7.8	5.7	..	..	42
1934	1,064	1,355	2,419	587	307	894	907	551	226	370	2.9	7.2	5.3	$64	$45	50
1935	1,334	1,792	3,126	734	424	1,158	1,403	550	237	370	2.7	10.7	7.3	67	53	55
1936	1,908	2,356	4,264	1,106	610	1,716	1,704	580	258	400	2.2	7.5	5.1	61	49	51
1937	1,747	2,453	4,200	1,035	686	1,721	1,887	593	279	410	4.1	13.2	9.4	53	52	52
1938	824	1,793	2,617	519	492	1,011	991	630	275	386	6.3	19.2	15.1	70	58	62
Canada																
1935	32.0	68.0	100.0	22.4	18.0	40.4	..	701	263	404	1.3	4.4	3.4	..	21	..
1936	42.9	94.7	137.6	29.9	25.0	54.9	..	698	264	399	1.5	10.0	7.4	61	25	27
1937	56.2	121.7	177.9	40.7	35.2	75.9	..	723	289	426	..	..	..	..	..	..
1938	45.3	117.4	162.7	33.7	36.0	69.7	..	745	306	428	..	..	..	..	..	..

APPENDIX E (Continued)

Part 2: Finance Company Data

Year	Months Maturity of Retail Paper—Per Cent Dollar Volume: New-Car Paper				Used-Car Paper				All Paper				Down Payment[b] (Per Cent of Paper Sub Standard)			Skips per 1000 Deals
	1 to 12 (17)	13 to 18 (18)	19 to 24 (19)	Over 24 (20)	1 to 12 (21)	13 to 18 (22)	19 to 24 (23)	Over 24 (24)	1 to 12 (25)	13 to 18 (26)	19 to 24 (27)	Over 24 (28)	New (29)	Used (30)	All (31)	(32)
United States																
1925	..	..	..	..	..	..	..	..	81	..	..	..	..	..	19	..
1926	..	..	..	..	..	..	..	..	87	..	..	..	..	..	9	..
1927	..	..	..	..	..	..	..	..	88	..	..	..	..	..	5	..
1928	..	..	..	..	..	..	..	..	86	..	..	..	..	..	6	4.7
1929	..	..	..	..	..	..	..	..	85	..	..	..	..	..	8	5.2
1930	..	..	..	..	..	..	..	..	83	..	..	..	..	..	12	5.1
1931	..	..	..	..	..	..	..	..	82	..	..	..	..	..	11	5.5
1932	..	..	..	..	..	..	..	..	78	..	..	..	..	..	14	5.5
1933	..	..	..	..	..	..	..	..	87	..	..	..	..	..	12	4.6
1934	62	..	..	..	85	..	..	..	70	..	..	..	17	21	18	2.2
1935	38	..	..	..	76	..	..	..	52	..	..	..	29	43	34	2.4
1936	28	45	25	2	65	32	3	(a)	41	40	17	2	26	27	26	2.6
1937	22	34	39	5	47	48	4	1	32	40	25	3	23	24	23	1.7
1938	28	47	25	(a)	49	49	2	(a)	38	48	14	(a)	19	23	21	5.8
Canada																
1935	42	..	..	..	75	..	..	..	56	..	..	..	19	10	15	3.5
1936	41	38	16	5	83	16	2	(a)	59	28	10	3	18	6	13	4.7
1937	48	37	14	1	74	19	7	(a)	60	29	10	1	28	19	23	..
1938	37	42	17	4	64	32	4	(a)	50	37	11	2	22	8	15	..

(a) Less than ½ of 1 per cent.
(b) Standard down payment, to and including 1935, means ⅓ for new cars and 40 per cent for used cars. For later years, it means ⅓ for both new and used cars.

APPENDIX E (Continued)

Part 3: Dealer Data

Year	Per Cent Trade-ins—Associations: On New Cars: Passenger Cars (33)	Commercial Vehicles (34)	All Motor Vehicles (35)	On Used Cars: Passenger Cars (36)	Commercial Vehicles (37)	All Motor Vehicles (38)	All Per Cent New Sold: Passenger Cars (39)	Commercial Vehicles (40)	All Motor Vehicles (41)	Used Cars Sold Per Cent of New: Association's: Passenger Cars (42)	Commercial Vehicles (43)	All Motor Vehicles (44)	Automobile Manufacturers Association: Passenger Cars (45)	Commercial Vehicles (46)	All Motor Vehicles (47)	Junked: Per Cent of Trade-Ins
United States																
1925	..	..	..	..	..	..	..	..	99	..	..	99	..	..	..	..
1926	..	..	..	..	..	..	..	..	90	..	..	89	..	..	..	..
1927	..	..	72	..	..	37	..	..	116	..	..	119	..	..	..	6.9
1928	..	..	69	..	..	39	..	..	116	..	..	117	..	..	..	8.1
1929	..	..	73	..	..	46	..	..	131	..	..	129	..	..	..	9.2
1930	..	..	75	..	..	49	..	..	156	..	..	164	180	97	172	14.3
1931	..	..	80	..	..	47	..	..	160	..	..	171	182	104	170	13.5
1932	..	..	89	..	..	48	..	..	177	..	..	186	224	123	209	14.3
1933	..	..	86	..	..	52	..	..	178	..	..	178	175	89	162	12.9
1934	78	56	75	48	41	47	160	91	150	171	88	160	164	80	148	8.1
1935	87	69	85	56	47	55	178	118	172	164	117	158	152	73	140	8.9
1936	86	73	85	51	48	51	173	123	168	170	105	164	164	81	151	10.8
1937	88	48	84	56	49	55	185	85	174	174	77	165	176	85	162	7.7
1938	90	61	88	59	47	59	212	120	206	207	125	201	236	111	216	6.9
Canada																
1935	87	65	84	55	45	54	193	112	182	194	109	182	..	..	..	4.6
1936	86	65	82	54	51	54	197	127	186	205	121	193	..	..	..	7.1
1937	89	64	85	56	44	55	210	111	193	215	108	197	..	..	..	5.3
1938	88	70	84	58	52	57	218	134	198	223	122	199	..	..	..	6.3

Note: Used-cars-sold ratios exclude cars junked.

APPENDIX E (Continued)

PART 4: DEALER DATA

Year	PER CENT SOLD ON INSTALMENTS									
	General Motors New All	Associations								
		New Cars			Used Cars			New and Used Cars		
		Passenger Cars	Commercial Vehicles	All Motor Vehicles	Passenger Cars	Commercial Vehicles	All Motor Vehicles	Passenger Cars	Commercial Vehicles	All Motor Vehicles
	(48)	(49)	(50)	(51)	(52)	(53)	(54)	(55)	(56)	(57)
United States										
1925	..	..	..	68	..	..	63	..	..	66
1926	..	..	..	65	..	..	65	..	..	65
1927	..	..	..	58	..	..	63	..	..	61
1928	..	..	..	58	..	..	61	..	..	60
1929	64	..	..	63	..	..	65	..	..	64
1930	62	..	..	62	..	..	65	..	..	64
1931	60	..	..	63	..	..	60	..	..	61
1932	55	..	..	55	..	..	47	..	..	49
1933	54	..	..	57	..	..	57	..	..	57
1934	55	55	53	54	58	56	58	57	50	57
1935	50	58	56	58	63	58	63	61	57	61
1936	55	61	58	61	58	62	59	59	60	59
1937	50	59	39	57	60	55	60	60	46	59
1938	46	52	45	52	60	56	60	57	51	57
Canada										
1935	..	46	54	47	60	67	61	56	61	56
1936	..	47	59	49	61	68	61	56	64	57
1937	..	52	54	52	63	66	63	60	60	60
1938	..	49	59	51	61	61	61	57	60	57

Source: Part 1, Columns 1-10, United States Department of Commerce, and Dominion Bureau of Statistics; Part 1, Columns 11-16, and Part 2, Columns 17-32, from questionnaires returned to this Association by finance companies; Part 3, Columns 33-41, and Part 4, Columns 52-54, from questionnaires filled out by dealers through the cooperation of the National Dealers Association and the Dominion Automobile Dealers Association; Part 3, Columns 45-47, from Automobile Manufacturers Association; Part 4, Column 48, General Motors Acceptance Corporation; covers all General Motors cars and trucks.

APPENDIX F

Frequency Distribution of Ages of Used Cars: A Comparison of 16,041 Used-Car Sales Recorded in Cuyahoga County, Ohio,[a] with 529 Used-Car Sales Sampled from Total, First Six Months, 1938

Model Year	Number of Used Cars	Number of Used Cars in Sample	Per Cent of Total Used Cars	Per Cent of Used Cars in Sample
1932	645	25	4.02	4.73
1933	2,204	66	13.74	12.48
1934	2,677	81	16.69	15.31
1935	3,090	108	19.27	20.41
1936	4,343	150	27.07	28.35
1937	2,960	94	18.45	17.77
1938	122	5	.76	.95
Total	16,041	529	100.	100.

[a] Does not include sales of 1931 or earlier models and sales of 1932 models after April 1, 1938.

Note: *See* Chapter XIII for a discussion of data in sample.

APPENDIX G

Frequency Distribution of Makes of Used Cars: A Comparison of 16,041 Used-Car Sales Recorded in Cuyahoga County, Ohio,[a] with 529 Used-Car Sales Sampled from Total, First Six Months, 1938

Make of Car	Number of Cars		Per Cent of Cars	
	All	Sample	All	Sample
1. Ford	4,247	143	26.476	27.032
2. Chevrolet	3,000	88	18.702	16.635
3. Plymouth	2,592	83	16.159	15.690
4. Dodge	1,317	49	8.210	9.263
5. Oldsmobile	914	27	5.698	5.104
6. Pontiac	873	34	5.442	6.427
7. Buick	614	20	3.828	3.781
8. Chrysler	439	19	2.737	3.592
9. Terraplane	428	14	2.668	2.647
10. DeSoto	268	11	1.671	2.079
11. Packard	242	6	1.509	1.134
12. Studebaker	236	6	1.471	1.134
13. Hudson	150	4	.935	.756
14. Willys	149	3	.929	.567
15. Graham	110	3	.686	.567
16. Cadillac and LaSalle	90	5	.561	.945
17. Lincoln and Zephyr	74	0	.462	0
18. Nash-Lafayette	69	1	.430	.189
19. Nash	67	2	.418	.378
20. Hupmobile	53	4	.330	.756
21. Auburn	39	0	.243	0
22. Essex	33	3	.206	.567
23. Reo	14	2	.087	.378
24. Rockne	11	2	.069	.378
25. Pierce-Arrow	5	0	.031	0
26. Franklin	2	0	.012	0
27. Willys-Knight	2	0	.012	0
28. Austin	1	0	.006	0
29. Bantam	1	0	.006	0
30. Cord	1	0	.006	0
Total	16,041	529	100.	100.

[a] Does not include sales of 1931 or earlier models and sales of 1932 models after April 1, 1938.

Note: *See* Chapter XIII for a discussion of data in sample.

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